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TRACK DATA CORP
Form 10-K
March 30, 2001

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

(Mark One)

Annual report under section 13 or 15(d) of the securities exchange act of 1934

For the fiscal year ended December 31, 2000

Transition report under section 13 or 15(d) of the securities exchange act of 1934

Commission file number 0-24634

TRACK DATA CORPORATION
(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

56 Pine Street
New York, New York
(Address of principal executive offices)

10005
(Zip Code)

(212) 943-4555
(Registrant's telephone number)

22-3181095
(I.R.S. Employer Identification No.)

Securities registered under Section 12(b) of the Exchange Act: None

Securities registered under Section 12(g) of the Exchange Act: Common Stock,
\$.01 par value

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

State the aggregate market value of the voting stock held by non-affiliates of the Registrant based on the closing price of the Company's Common Stock on March 7, 2001 of \$1.00 per share. \$36,629,000.

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State the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

64,210,955 shares of common stock, \$.01 par value, as of February 28, 2001

DOCUMENTS INCORPORATED BY REFERENCE
[SEE INDEX TO EXHIBITS]

PART I

Item 1. Business

Track Data Corporation (the "Company" or "TDC") is a financial services company that owns Track Data Securities Corp. ("TDSC"), a registered securities broker-dealer and member of the National Association of Securities Dealers, Inc. TDC provides a proprietary, fully integrated Internet-based online trading and market data system, myTrack. TDC provides real-time financial market data, fundamental research, charting, and analytical services to institutional and individual investors through dedicated telecommunication lines and the Internet. TDC also disseminates news and third-party database information from more than 100 sources worldwide.

The Company has delivered mission critical information to the most demanding customers in the investment community since 1981. Market data is delivered direct from the original sources (such as the exchanges) to the Company's facilities, where the data is simultaneously redistributed to its customers. myTrack operates through the use of a proprietary application software. Once the user is attached to the Company's host server, the connection link is constant, like an open telephone connection. This allows the system to provide dynamically updating stock quotes and news and to immediately respond to all queries. Utilizing myTrack's built-in trading platform allows the user to enter a trade that is received by the Company's server instantaneously, as the connection is the same one that is already connected for myTrack. The Company believes this is a competitive advantage over other trading systems that require a new connection to a server every time information is requested or sent.

Since August 2000, the Company has been offering online trading through its wholly owned broker-dealer subsidiary, TDSC. Prior thereto, the Company offered online trading since June, 1999 utilizing Track Securities Corporation ("TSC") as its broker-dealer. TSC is a broker-dealer owned and operated by a director of the Company. The Company licensed its myTrack trading system to a subsidiary of TSC. The Company received \$2.25 per trade pursuant to the agreement. The Company terminated this relationship with TSC in August 2000 and transferred the trading accounts from TSC to TDSC. See Item 13, Certain Relationships and Related Transactions.

On March 31, 1996, Track Data Corporation ("Track"), a principal stockholder of Global Market Information, Inc. ("Global"), merged into Global (the "Merger") and the name of Global was changed to Track Data Corporation. On November 7, 1997, Barry Hertz, Chairman and principal stockholder of the Company, transferred his 100% ownership in Newswire, Inc. ("NW"), a provider of online news information, to the Company for no further consideration. For accounting purposes, the Merger in 1996 and the subsequent contribution of NW in 1997 were treated as combinations of entities under common control similar to pooling-of-interests. Accordingly, the historical financial position and results of operations of Track, Global, and Newswire have been combined for all periods presented.

The Company maintains offices in the U.S. and Europe, with executive offices located at 56 Pine Street, New York, New York 10005 and at 95 Rockwell

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Place, Brooklyn, New York 11217. Its telephone number is 212-943-4555 or 718-522-7373.

TDC's operations are classified in two business segments: Internet-based online trading and market data services to the non-professional individual investor community, and market data services to the institutional professional investment community. See Note H of Notes to Consolidated Financial Statements.

INTERNET-BASED ONLINE TRADING AND MARKET DATA SERVICES TO THE NON-PROFESSIONAL INDIVIDUAL INVESTMENT COMMUNITY

The evolution of the Internet has fundamentally changed the way in which many investors manage their financial affairs. The speed, convenience, choice, cost savings, and information that the Internet offers as an investment tool has driven investor assets online. TDC anticipates a continuation in this trend.

TDC combined its strength for 20 years in delivering market data and third-party market information to the professional trading community with a unique order entry system to create a proprietary trading system, myTrack. myTrack has offered its software-based online trading system since June 1999. Since myTrack is a client-server application, it is not restricted by the limitations of HTML, the primary programming language of the worldwide web. With trading systems that use HTML, displayed data remains static until a query is repeated. In contrast, myTrack delivers and automatically updates a continuous, dynamic stream of live market data to the client's screen. TDC believes this difference gives myTrack a substantial edge over the web site-based trading offered by the vast majority of online brokerage firms.

Another advantage myTrack has is that it is a direct access broker. Direct access means myTrack clients have the choice to have their trades routed directly to the exchange, market maker, or electronic communication network ("ECN") of their choice. Our smart order routing system will select routing for those traders who do not wish to select on their own. As a result, TDC believes trades can be executed more quickly than if the trade is routed through a third market firm or an online brokerage firm's trading desk, as is the case with a number of other trading systems. The order entry section can be preset for size and type of order. The client can use a mouse to click the bid or ask price of a security and either close out an open position or add to an existing one. If the user clicks the bid or ask price of the security, the order screen will appear pre-configured to buy or sell.

myTrack clients may place bids or offers onto an ECN which will also appear in the Nasdaq Market Maker Level 2 screen with the corresponding price and size of the order. This gives myTrack clients an advantage in attempting to execute orders in between the bid and asked prices of Nasdaq securities.

TDC has targeted active traders and other active investors. TDC believes that myTrack is well-suited to satisfy their requirements. During the second quarter, TDC expects to release its new trading software, "DayTrader," that will contain further features and enhancements to satisfy the hyperactive trader community. TDC has established competitive rates and offered a broad range of supplementary information and data services. TDC is marketing myTrack by targeting active traders through advertisements on TV, in print, and online, plus direct mail, telemarketing, and other marketing. TDC's marketing efforts include advertisements on financial TV networks, in financial publications, and various other regional and national publications that have a demographic similar to myTrack's target market. TDC also advertises and promotes myTrack through Internet web site and banner advertisements.

myTrack Services

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Trading Access: In addition to the myTrack software, users can access myTrack trading through the myTrack web site, a Palm or other PDA, a web-enabled cellular phone, or two-way pager. myTrack delivers free streaming delayed quotes and unlimited free real-time extended quotes, as well as breaking company news, a trade by trade log, charting for technical analysis and a proprietary library of intra-day market statistics.

Commission Rates: Trading is offered at prices starting at \$12.95 per trade. Volume trading rebates can result in trade costs as low as \$8.20 per trade.

myTrack Market Data: myTrack provides access to comprehensive information on stocks, options, indices, and news, including bid and ask prices, charts, research and other information for any listed or Nasdaq-traded stock, many OTC-BB stocks, as well as the ability to establish and track securities, cash, margin and buying power positions on a real-time basis. myTrack's clients can arrange the display and configuration of data on their computer screens using a menu and tool bar, which are generally utilized in the Windows operating system.

Market Data Pricing: Real-time quotes, news, charting and technical analysis are available in various pay packages from \$19.95 per month plus exchange fees to \$95.00 per month (including Nasdaq Level II) plus exchange fees. Volume trading can result in rebates equivalent to the service plan charges.

Customer Service: Client services for all levels of online service, including trading, administrative, and technical support, are among TDC's highest priorities. Based on TDC's experience in the industry and client feedback, the Company believes that providing an effective client service team to handle client needs is critical to its success. TDC's Client Service department helps clients get online, handles product and service inquiries and addresses all brokerage and technical questions. The Client Service department also conducts various surveys to verify the satisfaction of our clients and to learn more about client preferences and requirements. Live client support is available 12 hours a day, from 8:00 AM to 8:00 PM Eastern Time, Monday through Friday.

Operations:

Clearing and Order Processing

TDC does not hold any funds or securities of its clients nor execute securities transactions. TDC clears all transactions for its clients, on a fully disclosed basis, with Penson Financial Services, Inc.

TDC's agreement provides that the clearing broker process all securities transactions for TDC's clients for a fee. Services of the clearing broker includes billing and credit control and receipt, custody and delivery of securities, for which TDC pays a per-ticket charge. TDC has agreed to indemnify and hold the clearing broker harmless from certain liabilities or claims, including claims arising from the transactions of its clients, which could be material in amount. TDC's clearing agreement may be terminated by either party, upon 45 days' written notice. TDC relies on the operational capacity and the ability of the clearing broker for the orderly processing of transactions.

Clients' securities transactions are effected on either a cash or margin basis. In connection with margin transactions, credit is extended to a client, collateralized by securities and cash in the client's account, for a portion of the purchase price. The client is charged for margin financing at interest rates based on the broker call rate plus an additional amount of up to 2.50%. The broker call rate, also known as the "Call Money Rate," is the prevailing

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interest rate charged by banks on secured loans to broker-dealers.

Margin lending is subject to the margin rules of the Board of Governors of the Federal Reserve System. Margin lending subjects TDC to the risk of a market decline that would reduce the value of collateral below the client's indebtedness before the collateral can be sold. Under applicable rules, in the event of a decline in the market value of the securities in a margin account, the client is required to deposit additional securities or cash in the account.

Network Infrastructure

TDC's external network consists of a series of routers and other Internet-networking equipment, myTrack, mail, web and File Transfer Protocol (ftp) servers; these servers are connected to TDC's internal (i.e. protected) network. This permits a moderated connection to TDC's intranet, so that any computer that can connect to the Internet can access authorized services.

Any individual with a personal computer who has a connection to the Internet and has Windows compatible software can subscribe to myTrack. Once an account is opened, the client downloads myTrack software and is given a unique user name and password. The client then logs onto TDC's myTrack servers. The myTrack servers connect to market data and order servers.

myTrack employs a proprietary protocol to communicate between the client and the server. Conventional mail, web and ftp servers are used to download software, provide a public access to a chat function and to exchange mail with internal mail servers and prevents virus-infected files or messages from reaching the internal network. Logins to myTrack servers are validated by a permission server. Once the permission server allows the client to establish a connection to a myTrack server, the connection between the client and server is maintained until the client requests it be terminated or until the system determines that the connection is no longer efficient or is inoperable.

TDC's technology is supported by an internal staff of programmers, developers, and operators 24 hours a day, seven days a week. The programming staff is supplemented by a team of quality control analysts, web page developers, technical writers, and design specialists who ensure the final product is user-friendly and dependable. In addition to supporting the systems, the staff continually enhances software and hardware and develops new services. Software is designed to be versatile and easily adaptable to new and emerging technologies.

The order servers accept buy/sell or sell short messages from the client application and qualifies the order according to a number of business rules. Once an order is qualified, it is sent to the exchange of choice and messages are sent to update the database. This update offers the client real-time account positions, buying power and profit and loss calculations. All transactions for the day are processed for delivery to the clearing firm.

Account Security

TDC uses a combination of proprietary and industry standard security measures to protect clients' assets. Clients are assigned unique account numbers, user identifications and passwords. In accordance with standard industry practices, telephone orders require authentication via personal identification number/password and/or other personal information. In addition, TDC's trade processing system is designed to compare the accounts database with the clearing firm's account information on a daily basis to detect any discrepancies.

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Firewalls and other software limit not only system access to the authorized users, but also limit the authorized users to specifically approved applications. This filter-software prevents unauthorized access to critical areas of the system such as account information. Furthermore, public access servers, such as e-mail, chat services and the file transfer protocol, are in a network entirely separate from the rest of TDC's systems.

TDC has implemented special policies relating to the transfer or withdrawal of funds by clients to prevent unauthorized withdrawals. Checks will only be made out in the account holder's name and wire transfers will only be sent to a bank account in the account holder's name.

Securities Regulation

Track Data Securities Corp. is a broker-dealer registered with the SEC and NASD and is licensed as a broker-dealer in 50 states.

The securities industry in the United States is subject to extensive regulation under federal and state laws. In addition, the SEC, NASD, other self regulatory organizations, such as the various stock exchanges, and other regulatory bodies, such as state securities commissions, require strict compliance with their rules and regulations. As a matter of public policy, regulatory bodies are charged with safeguarding the integrity of the securities and other financial markets and with protecting the interests of clients participating in those markets, and not with protecting the interests of the Company's stockholders.

Broker-dealers are subject to regulations covering all aspects of the securities business, including sales methods, trade practices among broker-dealers, use and safekeeping of clients' funds and securities, capital structure, record keeping and the conduct of directors, officers and employees. Because of the recent increase in the number of complaints by online traders, the SEC, NASD and other regulatory organizations may adopt more stringent regulations for online firms and their practices. If TDC fails to comply with any laws, rules or regulations, the Company could be censured, fined, issued a cease-and-desist order or TDSC or its officers and employees could be suspended or expelled.

Net Capital Requirements

The SEC, NASD, and various other regulatory agencies have stringent rules requiring the maintenance of specific levels of net capital by securities brokers, including the SEC's uniform net capital rule, which governs TDSC. Net capital is defined as assets minus liabilities, plus other allowable credits and qualifying subordinated borrowings less mandatory deductions that result from excluding assets that are not readily convertible into cash and from valuing other assets, such as a firm's positions in securities, conservatively. Among these deductions are adjustments in the market value of securities to reflect the possibility of a market decline prior to disposition.

As of December 31, 2000, TDSC was required to maintain minimum net capital, in accordance with SEC rules, of approximately \$181,000 and had total net capital of \$345,000, or approximately \$164,000 in excess of minimum net capital requirements.

If TDSC fails to maintain the required net capital TDSC may be subject to suspension or revocation of registration by the SEC and suspension or expulsion by the NASD and other regulatory bodies, which ultimately could require TDSC's liquidation. In addition, a change in the net capital rules, the imposition of new rules, a specific operating loss, or any unusually large charge against net

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capital could limit those operations of TDSC that require the intensive use of capital and could limit its ability to expand its business.

Other Internet-Based Market Data Services To Individual Non-Professional Market

AIQ Systems

AIQ Systems is an industry leader in developing artificial intelligence (AI) based stock market analysis and charting software for personal computers. By simulating the reasoning of top market technicians, AIQ's "Expert Systems" delivers trading signals and valuable market insight, as well as state-of-the-art technical charting and screening capabilities. AIQ's customer list consists of thousands of individual and professional investors worldwide who rely on AIQ's accurate and unique timing information for their daily trading decisions.

AIQ currently publishes three primary expert systems for market trading. AIQ MarketExpert or Prochart is an introductory level charting and analysis package used in conjunction with a professional data feed used by individual investors, brokers, and institutions worldwide.

AIQ's most popular product is AIQ TradingExpert for Windows. This advanced analysis package includes market timing, stock timing, and industry group analysis capabilities. TradingExpert retails for \$995. Recently, AIQ and myTrack joined forces to give investors the design and testing tools required to uncover profitable trading systems with myTrack's delayed and real-time quotes and news and Dial/Data's historical and end of day data. In addition, the 32-bit TradingExpert Pro contains state-of-the-art charting, industry group analysis, market timing, reports and screening, and portfolio management. AIQ offers this package for monthly fees starting at \$59 for delayed quotes and \$79 plus exchange fees for real-time quotes. AIQ waives the purchase price for users that sign up for one of these monthly packages.

AIQ's OptionExpert is an option data and evaluation system that uses the Internet to deliver real-time option chains, data and analysis. OptionExpert is offered in conjunction with myTrack's Internet-based online trading and market data system. OptionExpert delivers the tools necessary to identify, analyze, and track profitable options strategies. OptionExpert can be used as a stand-alone program, or combined with AIQ's award winning TradingExpert. AIQ is offering OptionExpert bundled with myTrack for monthly fees starting at \$59 plus exchange fees for real-time data. Separately, OptionExpert is \$39 per month. All packages include unlimited historical data and news.

AIQ also develops a full line of add-on modules for fundamental analysis, news retrieval, and data correlation. In addition, AIQ offers educational services including: the Opening Bell Monthly educational newsletter, bi-annual educational seminars and workshops, and a full line of educational video tapes.

Dial/Data Service

Dial/Data is an Internet-based service that provides historical and end-of-day pricing data for U.S., Canadian and European exchange-traded equities and related instruments, futures, equity options, futures options, mutual funds, bonds, government issues, money markets and indexes. In addition, fundamental data is provided for equity issues such as splits, dividends, and earnings per share. News headlines and full text stories from some of TDC's news vendors can also be delivered to Dial/Data customers. Dial/Data is primarily marketed through independent software vendors who provide analytical and charting programs for analyzing financial information. The Company's AIQ division, Equis International, and other independent software vendors include Dial/Data access

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as an integral part of the software that they market. The Company encourages these vendors of charting software, through the payment of royalties, to make their software compatible with the Company's Dial/Data market information, and to advise customers by inserts and other means that they may select Dial/Data as their source of market information by contacting Dial/Data and entering into a month to month subscription agreement. During 1999, one of the vendors with a competing service discontinued referrals and other customers moved from this service to myTrack, resulting in a significant decline in Dial/Data subscribers. A customer that has subscribed to Dial/Data accesses the service directly using the vendor's software program through modems on their PC's and is billed for the Dial/Data service directly by the Company. Access to the Company's database is provided by using the Internet. Although the software can operate on real-time information, customers primarily apply their charting techniques to historical information and there is substantially less emphasis on up-to-the-minute information for this service than there is for other services provided by the Company.

Pricing and Customers: Customers who subscribe to Dial/Data pay a flat monthly rate that ranges from \$15 to \$85, depending on the type of data received. At December 31, 2000 and 1999, there were approximately 9,000, and 14,000 customers, respectively. Customers pay for their services primarily by permitting the Company to charge their credit cards. Customers may terminate Dial/Data services at any time.

Marketing

TDC is marketing myTrack by targeting active traders through advertisements on TV, in print, and online, plus direct mail, telemarketing, and other marketing. TDC's marketing efforts include advertisements on financial TV networks, in financial publications, and various other regional and national publications that have a demographic similar to myTrack's target market. TDC also advertises and promotes myTrack through Internet web site and banner advertisements.

AIQ Systems markets its software products through direct mail, the Internet, print advertising and seminars.

The marketing effort for the Dial/Data service is directed towards the software vendors who offer analytic programs for the individual investor. By agreeing to provide royalties to these vendors, the Company seeks to encourage these vendors to make their programs compatible with the Company's databases, and to encourage customers to select the Company's databases in preference to databases made available by others.

Competition

The Company's myTrack online trading service competes with services offered by online brokers, many of which have substantially greater resources. The market for brokerage services is rapidly evolving and intensively competitive. The Company expects competition to continue and intensify in the future. The Company faces direct competition from other discount brokerage firms, many of which provide touch-tone telephone and online brokerage services but do not maintain significant branch networks. The Company also encounters competition from established full commission brokerage firms whose pricing and Internet strategies are continuing to evolve and who could elect to market the same types of services offered by the Company. In addition, the Company competes with financial institutions, mutual fund sponsors and other organizations, some of which provide (or may in the future provide) electronic and other discount brokerage services.

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The Company believes its competition consists of large and small brokerage firms, utilizing the Internet to transact retail brokerage business. Among these competitors are E*Trade Group, Inc., Charles Schwab & Co., Inc., Quick & Reilly, Inc., TD Waterhouse, Inc., Fidelity Brokerage Services, Inc. and Datek Securities Corp. The Company also faces competition for customers from full-commission brokerage firms, including Morgan Stanley Dean Witter & Co., Merrill Lynch, UBS Paine Webber, and Salomon Smith Barney, as well as financial institutions and mutual funds.

myTrack's market data service competes with many providers of financial information over the Internet. It competes on quality and reliability, as well as speed and price. Principal competitors to myTrack are Signal, DTN, PC Quote, AT Financial, as well as many other Internet providers of financial information.

Competitors to the Dial/Data service include Interactive Data Corp., The Dow Jones Retrieval Service, Compuserve, Telescan and Commodity Systems, Inc. The Company competes in this market based on price, the quality and reliability of its data, the extent and breadth of historical information, ease of access and the negotiation of agreements with vendors that provide royalty arrangements they find attractive. Some of the Company's competitors provide both software and data services. The Company competes with such full service providers by attempting to enter into agreements with vendors of superior software.

Competitors of AIQ include Equis International (MetaStock), Omega Research (SuperCharts), Windows on Wall Street, and many others. Generally, these competitors' products can be classified as "charting" packages. They concentrate their resources on general charting (graphical) and stock market back-testing capabilities, rather than the pre-programmed market analysis offered by the AIQ products. Due to this approach, which tends to be less support intensive, they compete at a lower price range of between \$250 and \$450 per unit, as compared to AIQ Systems which sells its most popular software product, "TradingExpert," for \$695. AIQ's TradingExpert Pro competes with Omega's TradeStation and MetaStock Professional.

Intellectual Property Rights

TDC relies on a combination of copyright, trademark and trade secret laws and non-disclosure agreements to protect its proprietary technologies, ideas, know-how and other proprietary information. TDC holds a United States trademark registration for the myTrack name. TDC has no patents or registered copyrights. Third parties may copy or otherwise obtain and use TDC's proprietary technologies, ideas, know-how and other proprietary information without authorization or independently develop technologies similar or superior to its technologies. Policing unauthorized use of our technologies and other intellectual property is difficult, particularly because the global nature of the Internet makes it difficult to control the ultimate destination or security of software or other data transmitted.

MARKET DATA SERVICES TO THE INSTITUTIONAL PROFESSIONAL INVESTMENT COMMUNITY

MarkeTrack

MarkeTrack offers significant real-time quote processing and analytical features, and has become distinguished over time for its ability to consistently deliver real-time, market sensitive information. The service provides domestic and international market information, dynamically updating quotelines, options and futures displays, real-time spreadsheets, tick-by-tick updating graphics, news services and third-party databases, user-defined screen layouts, access to back-office order and execution services, and over 20 years of

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graphical price history. It allows users to calculate theoretical values of options and determine the most beneficial investment strategy through calculating returns on alternative investments, including options and futures. In addition, users are able to download real-time data to both Microsoft Excel and Lotus 1-2-3 spreadsheet applications, which allows the users to create individually tailored financial applications to meet specific needs without additional programming. MarkeTrack 98 provides essentially the same service through the Internet.

The service provides investment professionals the ability to easily and rapidly analyze, on a single service terminal, large volumes of real-time prices, third-party databases, historical information and news services to support split second trading decisions. It runs under Windows NT, DOS and UNIX operating systems on a wide variety of personal computer and workstation platforms.

Pricing and Customers: Customers are charged a monthly service fee and a communications or location charge that typically varies with the location and size of the customer's installation. Service charges vary with the number and types of functions to which an individual subscribes, and are typically between \$250 and \$600 per month per user. Typically subscribers who execute a subscriber agreement contract that specifies both term and quantity of users may receive pricing discounts for multi-year contracts. Such agreements allow subscribers to receive services at a known cost and ensure TDC of a recurring revenue stream into the future.

MarkeTrack currently serves over 3,000 customers in trading and institutional investment management positions. Customers include floor traders, block traders, market makers, OTC traders, options specialists, head traders, arbitrageurs and hedge fund managers.

NewsWatch Service

The market focus of NewsWatch is the business professional who "must know first." It may be a trader, banker, research analyst, investment relations professional, corporate executive, or any "knowledge worker" who needs real-time information for making day-to-day business decisions. The service provides enterprise wide solutions to corporations needing to deliver external/internal real-time information to their "knowledge workers," leveraging internal networks and/or intranets. The service includes a high-speed consolidated news ticker, an NT-resident database with full-text indexing, access to a variety of third-party databases, and multiple domestic/international exchanges, all via a state of the art user-friendly presentation environment.

NewsWatch also provides a browser-based interface, bringing all the advantages of the Company's news collection and delivery service to the web environment. It is particularly appropriate for corporations who are comfortable with browser technology and need access to real-time business news for their end-user population via an internal intranet or the World Wide Web.

Pricing and Customers: Customers are charged a monthly service fee and a communications or location charge, which typically varies with the location and size of the customer installation. Service charges vary with the number and types of functions/news sources to which the user subscribes. A typical installation is approximately \$300/month at the 5-user level and is scaled down with increased users at a location.

Marketing

MarkeTrack competes in several highly competitive segments of the on-line

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real-time financial information marketplace: equity, options and futures trading; and the investment management segments of the professional investment community. The equities, options, and futures trading segment of this market is comprised of approximately 30,000 professionals who spend an estimated \$150 million per year on financial information, and the investment management segment is comprised of approximately 60,000 professionals who spend an estimated \$320 million per year on financial information. TDC's focus is on the premium end of these trading markets, appealing to institutional sales people, arbitrageurs, market makers and traders. TDC estimates that the premium segment of the trading market consists of approximately 16,000 terminals, of which its share is approximately 18%.

These services, as well as the NewsWatch service, are marketed primarily through a dedicated sales force, including 12 full-time regional sales persons in the U.S. and an international sales staff of 2 full-time sales persons. All services and new business are sold directly, often as a result of on-site presentations and service demonstrations.

In addition to its dedicated sales force, TDC maintains relationships with a number of brokerage firms that actively sell TDC's services to the money management side of the industry for "soft dollars." In a soft dollar arrangement, the brokerage firm pays TDC in cash for services delivered to the money managers. These brokerage firms are typically also customers of TDC.

TDC has ongoing advertising, direct mail, and public relations programs to promote product recognition and educate potential new customers in its targeted markets. In addition, the services are exhibited at major industry trade shows each year.

Competition

The Company competes with many other providers of electronically transmitted financial information. The Company competes in its varied service offerings to varying extents through price and quality of service.

The Company offers its MarkeTrack service in a highly competitive market in which it competes with other distributors of financial and business information, many of which have substantially greater financial resources. TDC competes, among other things, on the basis of the quality and reliability of its data, the speed of delivery and on the flexibility of its services. In the equity, options and futures trading segments, and the investment management segment, TDC's competitors include Bloomberg Financial and Bridge Information Systems. To a lesser degree, these TDC services compete with ILX, a Thomson Financial Services company, and Quotron, a Reuters company, who dominate the retail brokerage market segment. There can be no assurance that TDC will not encounter increased competition in the future, which could limit the Company's ability to maintain or increase its market share or maintain its margins, and which could have a material adverse effect on TDC's business, financial condition or operating results.

The Company offers its NewsWatch service in a highly competitive market in which it competes with other distributors of news information, many of which have substantially greater financial resources. NewsWatch competes, among other things, on the basis of the quality and reliability of its data, the speed of delivery and on the flexibility of its services. NewsWatch's principal competitors are NewsEdge Corp., Retrieval Technologies, Inc. and WavePhore's Newscast service.

Limited Proprietary Information

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The financial information which is made available by the Company for its MarkeTrack, myTrack, myTrack Pro, Dial/Data and NewsWatch services can be purchased from third-party sources and is not proprietary. The Company maintains proprietary economic and historical financial databases. The Company protects its proprietary information with standard secrecy agreements.

MarkeTrack, NewsWatch, MarkeTrack 98, myTrack, myTrack Pro and Dial/Data are registered service marks owned by the Company. AIQ has registered trademarks for StockExpert, MarketExpert, OptionExpert and TradingExpert, as well as Opening Bell for its newsletter.

Research and Development

Expenditures for research and development incurred primarily to establish technological feasibility of a product or for product enhancement were \$324,000, \$364,000 and \$356,000 for the years ended December 31, 2000, 1999 and 1998, respectively.

Employees

The Company employed approximately 265 persons on a full time basis as of December 31, 2000. The Company believes that its relationship with its employees is satisfactory.

Item 2. Properties

The Company's executive offices are located at 56 Pine Street, New York, New York and 95 Rockwell Place, Brooklyn, New York. The Company maintains office space and data centers at locations in New York, NY, Brooklyn, NY and Chicago, IL. The Brooklyn, NY location is leased from a family partnership controlled by the Company's Chairman. The annual rental of approximately 36,000 square feet is approximately \$540,000. The lease expires in April 2001. The Company believes that the terms of this lease are at least as favorable to it as terms which it would have obtained in a comparable transaction with unaffiliated persons.

The Company leases its New York, NY property comprising 16,800 square feet from an unaffiliated third party through February 2005 with base rent of \$250,000, subject to annual increases of 2.5% plus payment for electric and a share of increases in taxes.

The Company maintains sales and/or service offices for its institutional customers in Chicago, IL, Los Angeles, CA, San Francisco, CA, Boston, MA, Incline Village, NV, Philadelphia, PA, Dallas, TX, Minneapolis, MN, Boca Raton, FL and Toronto and Montreal, Canada with aggregate annual rentals of \$511,000 expire at various dates through 2004. The Company also maintains a full service office in London, England under a lease for annual rentals of \$149,000 expiring in 2004.

The Company's facilities are fully utilized and are suitable and adequate for their purpose.

Item 3. Legal Proceedings

There is no material litigation pending to which the Company is a party or of which any of its property is the subject.

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Item 4. Submission of Matters to a Vote of Security Holders

The Company held its Annual Meeting on October 26, 2000. The results of matters voted at that Meeting were reported in Part II, Item 4 of the Company's Form 10-Q for the period ended September 30, 2000.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

The Company's Common Stock is quoted on the Nasdaq National Market System under the symbol "TRAC." On February 28, 2001, there were 229 stockholders of record of the Company's Common Stock based on information provided by the Company's transfer agent. Virtually all of the Company's publicly held shares are held in "street name" and the Company believes the actual number of beneficial holders of its Common Stock to be approximately 25,000.

The following table sets forth the high and low sales prices for the Company's Common Stock as reported on Nasdaq NMS. The prices give retroactive effect to two-for-one stock splits paid on November 17, 1999 and December 29, 1999.

| | Common Stock Sale Price | |
|----------------|----------------------------|----------|
| | High | Low |
| 1999 | | |
| First Quarter | 3--3/4 | 1--3/8 |
| Second Quarter | 8--1/8 | 2--25/64 |
| Third Quarter | 3--1/32 | 2--1/8 |
| Fourth Quarter | 12 | 1--19/32 |
| 2000 | | |
| First Quarter | 12--1/4 | 6 |
| Second Quarter | 8--7/32 | 1--7/64 |
| Third Quarter | 2--1/4 | 15/16 |
| Fourth Quarter | 1--15/32 | 5/8 |

Dividends

The Company has never paid cash dividends on its Common Stock and does not anticipate that it will do so in the foreseeable future. The future payment of dividends, if any, on the Common Stock is within the discretion of the Board of Directors and will depend on the Company's earnings, its capital requirements, financial condition, and other relevant factors. On October 31, 1999 and December 13, 1999, the Company declared two-for-one stock splits in the form of stock dividends payable on November 17, 1999 and December 29, 1999 to stockholders of record on November 10, 1999 and December 22, 1999, respectively.

Item 6. Selected Financial Data

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| Year Ended December 31, | 2000 | 1999 | 1998 | 1997 | 1996 |
|---|---------------------------------------|------------|----------|----------|----------|
| | (in thousands, except per share data) | | | | |
| SERVICE FEES AND REVENUE | \$58,767 | \$46,620 | \$46,473 | \$47,631 | \$48,031 |
| COSTS AND EXPENSES: | | | | | |
| Direct operating costs | 31,484 | 26,989 | 26,466 | 25,629 | 26,283 |
| Selling and administrative expenses | 21,564 | 19,290 | 18,147 | 18,676 | 19,895 |
| Marketing and advertising | 5,472 | 5,684 | 1,302 | 734 | 930 |
| Other income | (1,429) | (350) | - | - | (288) |
| Interest expense (net of interest income) | 288 | 270 | 508 | 719 | 1,008 |
| Total | 57,379 | 51,883 | 46,423 | 45,758 | 47,828 |
| INCOME (LOSS) BEFORE EQUITY IN NET INCOME (LOSS) OF AFFILIATE AND INCOME TAXES | 1,388 | (5,263) | 50 | 1,873 | 203 |
| EQUITY IN NET INCOME (LOSS) OF AFFILIATE | 718 | 275 | 326 | (1,146) | (184) |
| INCOME (LOSS) BEFORE INCOME TAXES | 2,106 | (4,988) | 376 | 727 | 19 |
| INCOME TAXES | 47 | 60 | 158 | 299 | 526 |
| NET INCOME (LOSS) | \$ 2,059 | \$ (5,048) | \$ 218 | \$ 428 | \$ (507) |
| BASIC AND DILUTED NET INCOME (LOSS) PER SHARE | \$.03 | \$ (.08) | \$.00 | \$.01 | \$ (.01) |
| WEIGHTED AVERAGE SHARES OUTSTANDING | 63,660 | 61,229 | 58,224 | 58,220 | 58,488 |
| December 31, | 2000 | 1999 | 1998 | 1997 | 1996 |
| | (In thousands) | | | | |
| TOTAL ASSETS | \$24,479 | \$25,056 | \$18,591 | \$18,312 | \$20,679 |
| TOTAL LIABILITIES | 7,747 | 10,060 | 9,979 | 11,683 | 14,743 |
| STOCKHOLDERS' EQUITY | 16,732 | 14,996 | 8,612 | 6,629 | 5,936 |

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

Years ended December 31, 2000 and 1999

Revenues for the years ended December 31, 2000 and 1999 were \$58,767,000 and \$46,620,000, respectively, an increase of 26%. The Company's Professional Market segment had revenues for the years ended December 31, 2000 and 1999 of \$32,261,000 and \$30,482,000, respectively, an increase of 6% for this segment. The Company's Non-Professional Market segment had revenues of \$26,506,000 and \$16,138,000, respectively, for the years ended December 31, 2000 and 1999, an

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increase of 64% for this segment. The revenue increase in 2000 is due principally to myTrack's online trading and market data services. The Company obtained its own broker-dealer license and its registration in all of the states by August 2000. Prior thereto, trading revenues include only revenues from the licensing of its trading system, rather than a full amount of commissions paid by customers.

Direct operating costs were \$31,484,000 for the year ended December 31, 2000 and \$26,989,000 for the similar period in 1999, an increase of 17%. Direct operating costs as a percentage of revenues were 54% in 2000 and 58% in 1999. The decrease in 2000 is due principally to the greater revenues recognized after obtaining the broker-dealer license. Without giving effect to unallocated depreciation and amortization expense, the Company's Professional Market segment had \$14,863,000 and \$15,445,000 of direct costs for the years ended December 31, 2000 and 1999, respectively. Direct operating costs as a percentage of revenues for the Professional segment were 46% in 2000 and 51% in 1999. The Company's Non-Professional Market segment had \$14,475,000 and \$9,007,000 in direct costs for the years ended December 31, 2000 and 1999, respectively. Direct operating costs as a percentage of revenues for the Non-Professional segment were 55% in 2000 and 56% in 1999. Direct operating costs include direct payroll, direct telecommunication costs, computer supplies, depreciation, equipment lease expense and the amortization of software development costs. Since August 2000, when the Company commenced recording the full commissions from customers, direct costs include costs of clearing, back office payroll and other direct broker-dealer expenses.

Selling and administrative expenses were \$21,564,000 and \$19,290,000 in the 2000 and 1999 periods, respectively, an increase of 12%. Selling and administrative expenses as a percentage of revenues was 37% in 2000 and 41% in 1999. Without giving effect to unallocated depreciation and amortization expense, selling and administrative expenses for the Professional Market segment were \$12,893,000 and \$12,235,000 in the 2000 and 1999 periods, respectively, an increase of 5%. For the Professional Market segment selling and administrative expenses as a percentage of revenues was 40% in 2000 and 41% in 1999. Selling and administrative expenses for the Non-Professional segment were \$8,311,000 and \$6,643,000 in the 2000 and 1999 periods, respectively, an increase of 25%. For the Non-Professional segment selling and administrative expense as a percentage of revenue was 31% in 2000 and 41% in 1999. The dollar and percentage increase in 2000 compared to 1999 was principally due to increased payroll and related expenses for myTrack's online trading and market data services. Online trading was first introduced in the second quarter of 1999.

Marketing and advertising costs were \$5,472,000 in 2000 and \$5,684,000 in 1999. The substantial majority of these costs were incurred by the Non-Professional segment of the Company which incurred \$5,361,000 in 2000 and \$5,451,000 in 1999. Marketing costs in 2000 and 1999 are net of \$666,000 and 571,000, respectively, received from Track Securities under a licensing agreement. These costs were principally incurred in connection with the Company's myTrack online trading and market data systems. The level of expenditures in the second half of 2000 was substantially below the expenditures in the first half of 2000. The Professional Market segment spent \$111,000 in 2000 and \$233,000 in 1999.

As a result of the above-mentioned factors, the Professional Market segment realized \$4,395,000 in income before unallocated amounts, equity in net income of affiliate and income taxes in 2000 compared to income of \$2,570,000 in 1999. The Non-Professional Market segment incurred losses of \$1,642,000 in 2000 and \$4,964,000 in 1999 before unallocated amounts, equity in net income of affiliate and income taxes.

In 1999, the Company relocated certain of its personnel to other office space and realized a gain on the landlord buy-out of the lease of approximately

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\$350,000.

In 2000, the Company realized a gain of approximately \$1,683,000 on the sale of certain shares of Edgar Online, Inc., Innodata Corporation and other marketable securities.

In 2000, the Company wrote off its investment in iAnalyst of \$254,000.

As a result of the above mentioned factors, the Company realized income before equity in net income from an affiliate of \$1,388,000 in the 2000 period compared to a loss of \$5,263,000 in 1999. The income realized in 2000 was due principally to gains realized from the sale of marketable securities and the increased revenues in the Company's myTrack online trading and market data systems.

The equity in net income from an affiliate, Innodata Corporation, was \$718,000 and \$275,000 in 2000 and 1999, respectively.

The Company has a valuation allowance of \$5,727,000 as management believes it may not be able to realize all of its net operating loss carryforwards in the future. The establishment of a valuation allowance results in not recognizing tax benefits currently. However, in the event such benefits are realized or determined at a later date to be realizable, such future periods will benefit, net of amounts credited to paid-in capital, from such change and reflect greater income or a decreased loss.

The Company realized net income of \$2,059,000 in 2000 principally from gains on marketable securities and increased revenues from myTrack's online trading and market data services compared to a net loss of \$5,048,000 in 1999 principally due to marketing and advertising of the Company's myTrack service.

Years ended December 31, 1999 and 1998

Revenues for the years ended December 31, 1999 and 1998 were \$46,620,000 and \$46,473,000, respectively. The Company's Professional Market segment had revenues for the years ended December 31, 1999 and 1998 of \$30,482,000 and \$30,734,000, respectively. The Company's Non-Professional Market segment had revenues of \$16,138,000 and \$15,739,000, respectively, for the years ended December 31, 1999 and 1998. myTrack services represented approximately 13% of total revenues in 1999 compared to 2% in 1998.

Direct operating costs were \$26,989,000 for 1999 and \$26,466,000 for the similar period in 1998. Direct operating costs as a percentage of revenues were 58% in 1999 and 57% in 1998. Without giving effect to unallocated depreciation and amortization expense, direct operating costs for the Company's Professional Market segment were \$15,445,000 in 1999 compared to \$14,873,000 in 1998. Direct operating costs as a percentage of revenues for the Professional Market segment were 51% and 48% for the years ended December 31, 1999 and 1998, respectively. Direct operating costs for the Company's Non-Professional Market segment were \$9,007,000 and \$8,931,000 for 1999 and 1998, respectively. Direct operating costs as a percentage of revenues for the Non-Professional segment were 56% and 57% for the years ended December 31, 1999 and 1998.

Selling and administrative expenses were \$19,290,000 and \$18,147,000 in the 1999 and 1998 periods, respectively. Selling and administrative expenses as a percentage of revenues was 41% in 1999 and 39% in 1998. Without giving effect to unallocated depreciation and amortization expense, selling and administrative expenses for the Professional Market segment were \$12,235,000 and \$12,332,000 in the 1999 and 1998 periods, respectively. For the Professional Market segment selling and administrative expenses as a percentage of revenues was 40% in 1999 and 1998. Selling and administrative expenses for the Non-

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Professional segment were \$6,643,000 and \$5,365,000 in the 1999 and 1998 periods, respectively, an increase of 24%. Selling and administrative expenses as a percentage of revenues was 41% and 34% in 1999 and 1998, respectively. The increase in 1999 was due principally to myTrack payroll costs.

Marketing and advertising costs increased significantly in 1999 to \$5,684,000 from \$1,302,000 in 1998. The majority of the increase was incurred by the Non-Professional market segment which incurred \$5,451,000 in 1999 compared to \$1,064,000 in the 1998 period. Marketing costs in 1999 are net of \$571,000 received from Track Securities under a licensing agreement. These costs were incurred in connection with the Company's myTrack online trading (introduced in June 1999) and market data systems. The Professional Market segment incurred \$233,000 in 1999 compared to \$238,000 in 1998.

As a result of the above-mentioned factors, the Professional Market segment realized \$2,570,000 in income before unallocated amounts, equity in net income of affiliate and income taxes in 1999 compared to income of \$3,291,000 in 1998. The Non-Professional Market segment incurred a loss of \$4,964,000 in 1999 compared to income of \$379,000 in 1998 before unallocated amounts, equity in net income of affiliate and income taxes. The loss incurred in 1999 was due principally to the marketing and advertising incurred in connection with the introduction of online trading offered by myTrack.

Net interest expense decreased to \$270,000 in the 1999 period compared to \$508,000 in 1998 due to decreased borrowings and increased interest income from higher invested balances.

As a result of the above mentioned factors, the Company realized a loss before equity in net income from an affiliate of \$5,263,000 in the 1999 period compared to income of \$50,000 in 1998. The loss for the year ended December 31, 1999 was due to increased marketing for the Company's myTrack online trading and market data systems.

The equity in net income from an affiliate, Innodata Corporation, was \$275,000 in 1999 and \$326,000 in 1998.

The Company realized a net loss of \$5,048,000 in 1999 principally due to marketing and advertising of the Company's myTrack service, as compared to net income of \$218,000 in 1998.

Liquidity and Capital Resources

During the year ended December 31, 2000 cash provided by operating activities was \$1,637,000 compared to cash used in operating activities of \$747,000 in the year ended December 31, 1999. The increase in 2000 was primarily due to a break even from operating income, after excluding a gain on marketable securities of \$1,683,000, compared to a loss incurred in 1999. Cash flows provided by investing activities was \$811,000 in 2000 principally from the sale of Innodata and Edgar Online common stock of \$1,837,000 compared to \$1,116,000 used in investing activities for the year ended December 31, 1999. Cash flows used in financing activities in the year ended December 31, 2000 was \$1,608,000, principally from repayment of notes payable - bank, compared to cash flows from financing activities of \$6,647,000 in the 1999 period. The 1999 period included proceeds from the sale of the Company's common stock of \$5,201,000 and stock options and warrants of \$2,696,000.

The Company has a line of credit with a bank. The line is collateralized by the assets of the Company and is guaranteed by its Chairman. Interest is charged at 1.75% above the bank's prime rate and is due on demand. The Company may borrow up to 80% of eligible accounts receivable and is required to maintain a compensating balance of 10% of the outstanding loans. At December 31, 2000,

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the Company had outstanding borrowings under the line of \$569,000. The line of credit is sufficient for the Company's present cash requirements. The Company reduced its advertising costs in the second half of 2000 and will continue to do so in the first half of 2001. The Company may seek additional financing and or dispose of certain of its marketable securities to support increased advertising costs in the future. There are no major capital expenditures anticipated beyond the normal replacement of equipment and additional equipment to meet customer requirements.

Inflation and Seasonality

To date, inflation has not had a significant impact on the Company's operations. The Company's revenues are not affected by seasonality.

Disclosures in this Form 10-K contain certain forward-looking statements, including without limitation, statements concerning the Company's operations, economic performance and financial condition. These forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The words "believe," "expect," "anticipate" and other similar expressions generally identify forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of their dates. These forward-looking statements are based largely on the Company's current expectations and are subject to a number of risks and uncertainties, including without limitation, changes in external market factors, changes in the Company's business or growth strategy or an inability to execute its strategy due to changes in its industry or the economy generally, the emergence of new or growing competitors, various other competitive factors and other risks and uncertainties indicated from time to time in the Company's filings with the Securities and Exchange Commission. Actual results could differ materially from the results referred to in the forward-looking statements. In light of these risks and uncertainties, there can be no assurance that the results referred to in the forward-looking statements contained in this Form 10-K will in fact occur.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The Company is exposed to interest rate change market risk with respect to its credit facility with a financial institution, which is priced based on the prime rate of interest. At December 31, 2000, \$569,000 was outstanding under the credit facility. Changes in the prime interest rate during fiscal 2001 will have a positive or negative effect on the Company's interest expense. Such exposure will increase accordingly should the Company maintain higher levels of borrowing during 2001.

The Company has investments in marketable securities consisting principally of its investments in Innodata Corporation and Edgar Online, Inc., both publicly traded companies listed on Nasdaq. The market value of such securities is dependent on future market conditions for these companies over which the Company has little or no control. See Notes C and D of Notes to consolidated Financial Statements.

Item 8. Financial Statements

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors and Stockholders
Track Data Corporation

We have audited the accompanying consolidated balance sheets of Track Data Corporation and subsidiaries (the "Company") as of December 31, 2000 and 1999, and the related consolidated statements of operations, stockholders' equity and comprehensive income (loss), and cash flows for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial

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statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Track Data Corporation and subsidiaries as of December 31, 2000 and 1999, and the consolidated results of their operations and their consolidated cash flows for each of the three years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States of America.

/S/ Grant Thornton LLP
Melville, New York
March 1, 2001

Track Data Corporation and Subsidiaries Consolidated Balance Sheets December 31, 2000 and 1999

| | 2000 | 1999 |
|--|-------------------------------|-----------------------------|
| ASSETS | | |
| CASH AND EQUIVALENTS | \$ 6,505,756 | \$ 5,665,8 |
| ACCOUNTS RECEIVABLE - net of allowance for doubtful accounts of \$159,000 in 2000 and 1999 | 1,743,941 | 1,541,2 |
| DUE FROM CLEARING BROKER | 774,864 | - |
| MARKETABLE SECURITIES | 2,646,348 | 3,675,2 |
| FIXED ASSETS - at cost (net of accumulated depreciation) | 5,743,303 | 6,680,9 |
| SOFTWARE AND DATABASE COSTS - at cost (net of accumulated amortization of \$7,444,447 in 2000 and \$7,267,312 in 1999) | 287,863 | 417,2 |
| INVESTMENT IN AFFILIATE | 1,873,958 | 1,342,2 |
| EXCESS OF COST OVER NET ASSETS ACQUIRED | 2,333,699 | 2,747,5 |
| NET DEFERRED INCOME TAX ASSETS | 450,000 | 450,0 |
| OTHER ASSETS | 2,119,069 | 2,536,1 |
| TOTAL | <u>\$ 24,478,801</u> ===== | <u>\$ 25,056,4</u> ===== |

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LIABILITIES AND STOCKHOLDERS' EQUITY

LIABILITIES

| | | |
|---|--------------|------------|
| Accounts payable and accrued expenses | \$ 3,338,112 | \$ 4,352,9 |
| Note payable - bank | 569,321 | 2,535,0 |
| Notes payable - other | 836,203 | 762,0 |
| Trading securities sold but not yet purchased | 1,492,484 | |
| Capital lease obligations | 1,215,826 | 2,006,0 |
| Other liabilities, including income taxes | 294,588 | 403,4 |
| | ----- | ----- |
| Total liabilities | 7,746,534 | 10,059,6 |
| | ----- | ----- |

COMMITMENTS AND CONTINGENCIES

STOCKHOLDERS' EQUITY

| | | |
|--|--------------|-----------|
| Common stock - \$.01 par value; 300,000,000 shares authorized; issued and outstanding - 64,453,556 shares in 2000 and 63,070,056 shares in 1999 | 644,536 | 630,7 |
| Additional paid-in capital | 26,136,695 | 24,944,7 |
| Accumulated other comprehensive income | 675,921 | 2,205,1 |
| Deficit | (10,724,885) | (12,783,8 |
| | ----- | ----- |
| Total stockholders' equity | 16,732,267 | 14,996,8 |
| | ----- | ----- |

| | | |
|-------|---------------|-------------|
| TOTAL | \$ 24,478,801 | \$ 25,056,4 |
| | ===== | ===== |

Track Data Corporation and Subsidiaries
Consolidated Statements of Operations
Years Ended December 31, 2000, 1999 and 1998

| | 2000 | 1999 | |
|---|--------------|--------------|---------|
| SERVICE FEES AND REVENUE | \$58,766,897 | \$46,620,367 | \$46,47 |
| | ----- | ----- | ----- |
| COSTS AND EXPENSES: | | | |
| Direct operating costs | 31,484,201 | 26,989,354 | 26,46 |
| Selling and administrative expenses | 21,564,337 | 19,290,029 | 18,14 |
| Marketing and advertising | 5,471,661 | 5,684,066 | 1,30 |
| Gain on marketable securities | (782,928) | - | |
| Gain on sales of investment in affiliate | (899,835) | - | |
| Write off of investment | 253,843 | - | |
| Gain on real property lease buyout | - | (350,000) | |
| Interest expense (net of interest income of \$246,610, \$181,240 and \$33,355 in 2000, 1999 and 1998, respectively) | 287,672 | 269,940 | 50 |
| | ----- | ----- | ----- |
| Total | 57,378,951 | 51,883,389 | 46,42 |
| | ----- | ----- | ----- |
| INCOME (LOSS) BEFORE EQUITY IN NET INCOME OF AFFILIATE AND INCOME TAXES | 1,387,946 | (5,263,022) | 5 |

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| | | | |
|---|--------------|----------------|-------|
| EQUITY IN NET INCOME OF AFFILIATE | 718,000 | 275,000 | 32 |
| | ----- | ----- | ----- |
| INCOME (LOSS) BEFORE INCOME TAXES | 2,105,946 | (4,988,022) | 37 |
| INCOME TAXES | 47,000 | 60,000 | 15 |
| | ----- | ----- | ----- |
| NET INCOME (LOSS) | \$ 2,058,946 | \$ (5,048,022) | \$ 21 |
| | ===== | ===== | ===== |
| BASIC AND DILUTED NET INCOME (LOSS) PER SHARE | \$.03 | \$ (.08) | |
| | ===== | ===== | |
| WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING | 63,660,000 | 61,229,000 | 58,22 |
| | ===== | ===== | ===== |

Track Data Corporation and Subsidiaries
Consolidated Statements of Stockholders' Equity and Comprehensive Income (Loss)
Years Ended December 31, 2000, 1999 and 1998

| | Common Stock | Additional Paid-in Capital | Accumulated Other Comprehensive Income | Deficit | Compre- hensive Income (Loss) |
|---|-----------------|----------------------------------|---|----------------|--|
| BALANCE, JANUARY 1, 1998 | \$572,360 | \$13,988,055 | \$ 22,999 | \$ (7,953,981) | |
| Net income | | | | 218,172 | \$ 218,172 |
| Stock options exercised | 36,120 | 2,346,009 | | | |
| Purchase and retirement of treasury stock | (16,624) | (897,148) | | | |
| Tax effect of stock options exercised | | 319,000 | | | |
| Foreign currency translation adjustment | | | (22,999) | | (22,999) |
| Comprehensive income | | | | | \$ 195,173 |
| | ----- | ----- | ----- | ----- | ===== |
| BALANCE, DECEMBER 31, 1998 | 591,856 | 15,755,916 | - | (7,735,809) | |
| Net loss | | | | (5,048,022) | \$ (5,048,022) |
| Issuance of common stock in exchange for investment in private company | 1,379 | 498,621 | | | |
| Sale of common stock | 19,333 | 5,181,925 | | | |
| Issuance of common stock for services | 335 | 93,415 | | | |
| Issuance of options for services | | 106,000 | | | |

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| | | | | |
|---|------------------|---------------------|-------------------|-----------------------|
| Stock options and warrants exercised | 17,873 | 1,861,863 | | |
| Purchase and retirement of treasury stock | (75) | (23,038) | | |
| Tax effect of stock options exercised | | 1,470,094 | | |
| Unrealized gain on marketable securities - net of taxes | | | 2,205,144 | 2,205,144 |
| Comprehensive loss | | | | <u>\$(2,842,878)</u> |
| BALANCE, DECEMBER 31, 1999 | <u>630,701</u> | <u>24,944,796</u> | <u>2,205,144</u> | <u>(12,783,831)</u> |
| Net income | | | | 2,058,946 |
| Issuance of common stock in exchange for investment in private companies | 3,263 | 466,580 | | \$ 2,058,946 |
| Sale of common stock | 10,000 | 1,240,000 | | |
| Stock options and warrants exercised | 6,264 | 1,209,184 | | |
| Purchase and retirement of treasury stock | (5,692) | (704,383) | | |
| Reversal of tax effect of stock options exercised | | (1,019,482) | | |
| Unrealized loss on marketable securities - net of taxes | | | (1,529,223) | (1,529,223) |
| Reclassification adjustment for gain on marketable securities, net of tax | | | | (434,016) |
| Comprehensive income | | | | <u>\$ 95,707</u> |
| BALANCE, DECEMBER 31, 2000 | <u>\$644,536</u> | <u>\$26,136,695</u> | <u>\$ 675,921</u> | <u>\$(10,724,885)</u> |

Track Data Corporation and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2000, 1999 and 1998

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| | 2000 | 1999 | 1998 |
|--|--------------|----------------|-------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Net income (loss) | \$ 2,058,946 | \$ (5,048,022) | \$ 218,172 |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | | |
| Depreciation and amortization | 3,099,033 | 3,650,263 | 3,743,908 |
| Services performed in exchange for common stock and options | - | 199,750 | - |
| Equity in net income of affiliate | (718,000) | (275,000) | (326,000) |
| Deferred taxes | - | - | 135,000 |
| Write off of investment | 253,843 | - | - |
| Gain on sale of Innodata and Edgar Online common stock | (1,649,555) | - | - |
| Net gain on other marketable securities | (33,208) | - | - |
| Net proceeds from marketable securities | 29,529 | - | - |
| Other | (42,570) | 737 | 153,381 |
| Changes in operating assets and liabilities: | | | |
| Accounts receivable and due from clearing broker | (322,105) | 374,819 | 39,106 |
| Other assets | (102,263) | (116,203) | (111,365) |
| Accounts payable and accrued expenses | (1,014,847) | 481,257 | (900,641) |
| Other liabilities | 78,672 | (14,256) | (664,341) |
| | ----- | ----- | ----- |
| Net cash provided by (used in) operating activities | 1,637,475 | (746,655) | 2,287,220 |
| | ----- | ----- | ----- |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Purchase of fixed assets | (1,024,446) | (1,062,320) | (703,258) |
| Proceeds from sales of fixed assets | 64,115 | 51,535 | 154,684 |
| Payments (to) from related parties | - | (26,602) | 193,986 |
| Payments to others | (11,971) | (53,087) | (5,263) |
| Proceeds from sale of Innodata and Edgar Online common stock | 1,836,534 | - | - |
| Other investments | (52,800) | (25,311) | - |
| | ----- | ----- | ----- |
| Net cash provided by (used in) investing activities | 811,432 | (1,115,785) | (359,851) |
| | ----- | ----- | ----- |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | |
| Payments under capital lease obligations | (1,426,970) | (1,799,470) | (1,959,052) |
| Net (payments) proceeds on note payable - bank | (1,965,735) | 396,624 | (234,767) |
| Net proceeds from notes payable - other | 74,120 | 65,117 | 32,144 |
| Net (payments) proceeds on | | | |

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| | | | |
|---|--------------|--------------|--------------|
| loans from employee savings program | (165,219) | 110,438 | 32,482 |
| Proceeds from issuance of common stock | 1,250,000 | 5,201,258 | - |
| Proceeds from exercise of stock options and warrants | 1,335,747 | 2,696,059 | 1,443,706 |
| Purchase of treasury stock | (710,075) | (23,113) | (913,772) |
| | ----- | ----- | ----- |
| Net cash (used in) provided by financing activities | (1,608,132) | 6,646,913 | (1,599,259) |
| | ----- | ----- | ----- |
| EFFECT OF EXCHANGE RATE DIFFERENCES ON CASH | (852) | (2,220) | (23,744) |
| | ----- | ----- | ----- |
| NET INCREASE IN CASH AND EQUIVALENTS | 839,923 | 4,782,253 | 304,366 |
| CASH AND EQUIVALENTS, BEGINNING OF YEAR | 5,665,833 | 883,580 | 579,214 |
| | ----- | ----- | ----- |
| CASH AND EQUIVALENTS, END OF YEAR | \$ 6,505,756 | \$ 5,665,833 | \$ 883,580 |
| | ===== | ===== | ===== |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION: | | | |
| Cash paid for: Interest | \$ 456,485 | \$ 346,697 | \$ 546,042 |
| Income taxes | 43,648 | 20,289 | 786,447 |
| SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES: | | | |
| Equipment acquisitions financed by capital leases | \$ 634,623 | \$ 853,387 | \$ 1,783,198 |
| Exercise of stock options | 1,800 | 122,412 | 938,423 |
| Issuance of common stock for investment in private companies | 469,843 | 500,000 | - |

Track Data Corporation and Subsidiaries
Notes To Consolidated Financial Statements
Years Ended December 31, 2000, 1999 and 1998

A. The Company and Summary of Significant Accounting Policies

Description of Business and Basis of Presentation--Track Data Corporation ("TDC") is a financial services company that owns Track Data Securities Corp., a registered securities broker-dealer and member of the National Association of Securities Dealers, Inc. TDC provides a proprietary, fully integrated Internet-based online trading and market data system, myTrack. TDC provides real-time financial market data, fundamental research, charting and analytical services to institutional and individual investors through dedicated telecommunication lines and the Internet. TDC also disseminates news and third-party database information from more than 100 sources worldwide. TDC's operations are classified in two business segments: Internet-based online trading and market data services to the non-professional individual investor community, and market data services to the institutional professional investment community.

Certain reclassifications of prior year amounts were made to conform to the 2000 presentation.

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Principles of Consolidation--The consolidated financial statements of the Company include its subsidiaries, all of which are wholly owned. All significant intercompany transactions and accounts have been eliminated in consolidation.

Fixed Assets--Fixed assets are depreciated on a straight-line basis over their estimated useful lives which are as follows: equipment - 3-10 years; furniture and fixtures - 10 years; and transportation equipment - 4 years. Leasehold improvements are amortized on a straight-line basis over the respective lease term or estimated useful life, whichever is less.

Software and Database Costs--Certain costs of internally developed software are capitalized and are amortized at the greater of the ratio that current gross revenues bear to the total of current and anticipated future gross revenues or the straight-line method, generally five years. Other software costs are amortized on a straight-line basis over their estimated useful lives, generally five years. Costs incurred for internal use software in the preliminary project stage and for application maintenance are expensed. Costs incurred for application development are capitalized. Most costs are incurred for upgrades and enhancements that are constantly upgraded and changed with useful lives of less than one year. Accordingly, these costs are expensed as incurred. No development costs have been capitalized during the three years ended December 31, 2000. Database costs are amortized on a straight-line basis over their estimated useful lives of ten years. Management assesses the recoverability of its software development and database costs based principally upon a comparison of the carrying value of the asset to the undiscounted expected future cash flows to be generated by the asset, plus estimated salvage value less any applicable costs. If management concludes that the asset is impaired, its carrying value is adjusted to its fair value.

Excess of Cost Over Net Assets Acquired--The excess of the purchase price of acquired businesses over the fair value of net assets on the dates of acquisition amounts to \$2,333,699 and \$2,747,523, net of accumulated amortization of \$2,060,207 and \$1,646,383 as of December 31, 2000 and 1999, respectively. The excess is being amortized on the straight-line basis over ten to fifteen years. Management assesses the recoverability of the remaining unamortized costs based principally upon a comparison of the carrying value of the asset to the undiscounted expected future cash flows to be generated by the asset. If management concludes that the asset is impaired, its carrying value is adjusted to its estimated fair value.

Revenue Recognition--The Company recognizes revenue as services are performed. Billings in advance of services provided are recorded as unearned revenues. All other revenues collected in advance of services are deferred until services are rendered. Since obtaining its broker-dealer license in 2000 and registration in all of the states, the Company earns commissions as an introducing broker for the transactions of its customers. Commissions and related clearing expenses are recorded on a trade-date basis as securities transactions occur.

Marketable Securities--The Company accounts for securities owned in accordance with Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" ("FAS 115"). FAS 115 requires investments in debt and equity securities to be classified as either "held to maturity," "trading," or "available for sale." The accounting treatment for unrealized gains and losses on those securities is then determined by the classification chosen. Trading securities transactions are recorded on a trade-date basis. Securities are valued at market value, and securities not readily marketable are valued at fair value as determined by management. The resulting difference between cost and market (or fair value) is included in trading gains, net. Securities sold, but not yet purchased, consist of trading securities at market values. The difference between the proceeds received from securities sold short and the current market value is included in trading gains, net. Securities available for sale are carried at fair value, with unrealized

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gains and losses net of deferred taxes, reported as a separate component of stockholders' equity, and realized gains and losses, determined on a specific identification basis, are included in earnings.

Foreign Currency Translation--The Company has several divisions which operate in foreign countries for which the functional currency is not U.S. dollars. Balance sheet accounts are translated at the exchange rates in effect at December 31, 2000 and 1999, and the income statement accounts are translated at the weighted average rates prevailing during the years ended December 31, 2000, 1999 and 1998. Unrealized foreign exchange gains and losses resulting from this translation are insignificant.

Income Taxes--Deferred income tax assets and liabilities are computed annually for differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future. Such deferred income tax asset and liability computations are based on enacted tax laws and rates applicable to periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense (benefit) is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities.

Investment in Affiliate--The Company's investment in Innodata Corporation ("Innodata"), a publicly traded company whose Chairman is also the Chairman of the Company, is accounted for using the equity method under which the Company's share of the affiliate's earnings is included in its results of operations. Innodata is a global outsourcing provider of Internet and online digital content services.

Cash and Cash Equivalents--For financial statement purposes (including cash flows), the Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Use of Estimates--In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.

Research and Development--The Company charges all costs incurred to establish the technological feasibility of a product or product enhancement to research and development expense. Research and development expenses were \$324,000, \$364,000 and \$356,000 for the years ended December 31, 2000, 1999 and 1998, respectively.

Marketing and Advertising--Marketing and advertising costs are charged to expense when incurred. Marketing and advertising costs were \$5,472,000, \$5,684,000 and \$1,302,000 for the years ended December 31, 2000, 1999 and 1998, respectively.

Segment Reporting--The Company uses the "management approach" as defined by FAS No. 131, "Disclosures about Segments of Enterprise and Related Information" for its segment reporting. The management approach designates the internal organization that is used by management for making operating decisions and assessing performance as the disclosures about products and services, geographic areas, and major customers.

Fair Value of Financial Instruments--The Company has estimated the fair value of financial instruments using available market information and other valuation methodologies in accordance with FAS No. 107, "Disclosures About Fair Value of

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Financial Instruments." Management of the Company believes that the fair values of financial instruments, consisting of accounts receivable and payable, notes payable and capital lease obligations, approximate carrying value due to the short payment terms associated with its accounts receivable and payable and the interest rates associated with its notes payable and capital lease obligations.

Comprehensive Income (Loss)--The Company reports comprehensive income (loss) in accordance with FAS No. 130, "Reporting Comprehensive Income." FAS No. 130 requires foreign currency translation adjustments and unrealized gains and losses on available for sale securities to be included in accumulated other comprehensive income (loss).

Earnings (Loss) Per Share--Basic earnings (loss) per share is based on the weighted average number of common shares outstanding without consideration of potential common stock. Diluted earnings (loss) per share are based on the weighted average number of common and potential dilutive common shares outstanding. In 1999, such result would be anti-dilutive. There was no affect on earnings per share in 2000 and 1998 as a result of potential dilution. The calculation takes into account the shares that may be issued upon exercise of stock options (Note M), reduced by the shares that may be repurchased with the funds received from the exercise, based on the average price during the year.

B. Fixed Assets

Fixed assets consist of the following at December 31, 2000 and 1999:

| | 2000 | 1999 |
|---|--------------|--------------|
| Equipment | \$33,474,381 | \$32,853,829 |
| Telephone systems | 1,146,224 | 778,806 |
| Furniture and fixtures | 1,082,573 | 1,075,880 |
| Transportation equipment | 69,461 | 69,461 |
| Leasehold improvements | 2,176,059 | 2,169,135 |
| | ----- | ----- |
| | 37,948,698 | 36,947,111 |
| Less accumulated depreciation and amortization | 32,205,395 | 30,266,159 |
| | ----- | ----- |
| Fixed assets - net | \$ 5,743,303 | \$ 6,680,952 |
| | ===== | ===== |

Equipment financed by capital leases has a net carrying value of \$2,927,486 and \$4,021,877 at December 31, 2000 and 1999, respectively. Depreciation and amortization expense (including assets held under capital leases) for the years ended December 31, 2000, 1999 and 1998 was \$2,506,176, \$2,949,223 and \$3,112,806, respectively.

C. Marketable Securities

Marketable securities consists of the following:

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| | 2000 | 1999 |
|---|-------------|-------------|
| Edgar Online - Available for sale securities -at market | \$1,135,884 | \$3,675,240 |
| Trading securities - at market | 1,510,464 | - |
| | ----- | ----- |
| | \$2,646,348 | \$3,675,240 |
| | ===== | ===== |
| Trading securities sold but not yet purchased - at market | \$1,492,484 | \$ - |
| | ===== | ===== |

The Company owns 712,600 shares of Edgar Online, Inc. ("EOL"), an Internet-based supplier of business, financial and competitive intelligence derived from U.S. Securities and Exchange Commission data. EOL completed a public offering of its common stock in May 1999. The Company carries the investment at \$1,135,884, the market value at December 31, 2000. The difference between the cost (\$9,349) and fair market value of these securities (\$675,921), net of \$450,614 in deferred taxes, is classified as a component of accumulated other comprehensive income included in stockholders' equity.

Trading securities have a long market value of \$1,510,164 with a cost of \$1,416,089, or a net unrealized gain of \$94,075. Securities sold but not yet purchased, have a short market value of \$1,492,184 with a cost of \$1,457,957, or a net unrealized loss of \$34,227. The Company pledged its holdings in EOL and Innodata (Note D) as collateral for its trading accounts.

D. Investment in Affiliate

As discussed in Note A, the Company has an equity interest in Innodata of approximately 11%, 13% and 14% at December 31, 2000, 1999 and 1998, respectively, which is carried at the Company's equity in the underlying net assets.

Summarized information for Innodata is as follows:

| | 2000 | 1999 | 1998 |
|-------------------|--------------|--------------|--------------|
| Total assets | \$27,946,000 | \$15,646,000 | \$10,596,000 |
| Total liabilities | 8,630,000 | 3,994,000 | 3,110,000 |
| Revenues | 50,731,000 | 27,490,000 | 19,593,000 |
| Net income | 6,168,000 | 2,113,000 | 2,250,000 |

The Company's equity in the net income of Innodata for the years ended December 31, 2000, 1999 and 1998 was \$718,000, \$275,000 and \$326,000, respectively. As of December 31, 2000, after giving retroactive effect to a two-for-one stock dividend declared on February 28, 2001 and payable on March 23, 2001, the Company owned 2,256,980 shares of Innodata which are traded on Nasdaq. The

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closing price on December 31, 2000, as adjusted, was \$5.50 per share. (See Note C).

E. Due From Related Parties

The amounts due from related parties of approximately \$25,000 at December 31, 2000 and 1999, included in other assets, consisted of loans made to the Company's Chairman and entities controlled by him.

F. Note Payable - Bank

The note payable - bank bears interest at 1.75% above the bank's prime rate (9.75% at December 31, 2000) and is due on demand. The note is collateralized by substantially all of the Company's assets and is guaranteed by its principal stockholder. The Company may borrow up to 80% of eligible accounts receivable and is required to maintain a compensating cash balance of not less than 10% of the outstanding loan obligation.

G. Notes Payable - Other

Notes payable - other (i) are due on demand, (ii) bear interest at rates ranging from 9 to 10 percent per annum, and (iii) approximately \$140,000 is guaranteed by the Company's Chairman.

H. Segment Information

TDC is a financial services company that owns Track Data Securities Corp., a registered securities broker-dealer and member of the National Association of Securities Dealers, Inc. TDC provides a proprietary, fully integrated Internet-based online trading and market data system, myTrack. TDC provides real-time financial market data, fundamental research, charting, and analytical services to institutional and individual investors through dedicated telecommunication lines and the Internet. TDC also disseminates news and third-party database information from more than 100 sources worldwide. TDC's operations are classified in two business segments: Internet-based online trading and market data services to the non-professional individual investor community, and market data services to the institutional professional investment community. As of December 31, 2000, all prior period segment data has been restated to conform to the 2000 presentation.

The accounting policies of the segments are the same as those described in Note A, Summary of Significant Accounting Policies. Segment data includes charges allocating corporate overhead to each segment. The Company has not disclosed asset information by segment as the information is not produced internally. Substantially all long-lived assets are located in the U.S. The Company's business is predominantly in the U.S. Revenues and net income from international operations are not material. Information concerning operations in its business segments is as follows:

| Revenues | 2000 | 1999 | 1998 |
|-------------------------|--------------|--------------|--------------|
| Professional Market | \$32,261,173 | \$30,482,607 | \$30,734,365 |
| Non-Professional Market | 26,505,724 | 16,137,760 | 15,739,104 |
| | ----- | ----- | ----- |
| Total | \$58,766,897 | \$46,620,367 | \$46,473,469 |
| | ===== | ===== | ===== |

Income (loss) before unallocated amounts, equity in net income of affiliate and income taxes:

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| | | | |
|--|--------------|----------------|--------------|
| Professional Market | \$ 4,394,518 | \$ 2,569,999 | \$ 3,291,299 |
| Non-Professional Market | (1,641,644) | (4,963,858) | 379,397 |
| Unallocated amounts: | | | |
| Depreciation and amortization | (2,506,176) | (2,949,223) | (3,112,806) |
| Gain on marketable securities and sale of investment in affiliate | 1,682,763 | - | - |
| Write-off of investment | (253,843) | - | - |
| Gain on property lease buyout | - | 350,000 | - |
| Interest expense, net | (287,672) | (269,940) | (507,760) |
| | ----- | ----- | ----- |
| Income (loss) before equity in net income of affiliate and income taxes | 1,387,946 | (5,263,022) | 50,130 |
| Equity in net income of affiliate | 718,000 | 275,000 | 326,000 |
| | ----- | ----- | ----- |
| Income (loss) before taxes | \$ 2,105,946 | \$ (4,988,022) | \$ 376,130 |
| | ===== | ===== | ===== |

I. Income Taxes

The components of the provision for income taxes are as follows:

| | 2000 | 1999 | 1998 |
|----------------------------|----------|----------|-----------|
| Federal: | | | |
| Current | \$ 2,600 | \$ 5,000 | \$ - |
| Deferred | - | - | 115,000 |
| | ----- | ----- | ----- |
| Total federal | 2,600 | 5,000 | 115,000 |
| | ----- | ----- | ----- |
| State and local: | | | |
| Current | 44,400 | 55,000 | 22,958 |
| Deferred | - | - | 20,000 |
| | ----- | ----- | ----- |
| Total state and local | 44,400 | 55,000 | 42,958 |
| | ----- | ----- | ----- |
| Provision for income taxes | \$47,000 | \$60,000 | \$157,958 |
| | ===== | ===== | ===== |

Reconciliation of the U.S. statutory rate with the Company's effective tax rate is summarized as follows:

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| | | | |
|---|--------|---------|-------|
| | 2000 | 1999 | 1998 |
| Federal statutory rate | 34.0% | (34.0)% | 34.0% |
| State and local income taxes | 2.2 | (1.1) | 7.5 |
| Increase in valuation allowance | - | 34.0 | - |
| Utilization of net operating loss carryforwards | (34.0) | - | - |
| Other | - | (.1) | 0.5 |
| | ----- | ----- | ----- |
| Effective rate | 2.2% | (1.2)% | 42.0% |
| | ===== | ===== | ===== |

The components of the Company's net deferred taxes are as follows:

| | | |
|--|--------------|--------------|
| | 2000 | 1999 |
| Deferred tax assets: | | |
| Net operating loss carryforwards | \$ 6,754,000 | \$ 5,787,000 |
| Deferred compensation | 195,000 | 995,000 |
| Other (principally reserves for uncollectible accounts) | 176,000 | 250,000 |
| | ----- | ----- |
| | 7,125,000 | 7,032,000 |
| Less valuation allowance | (5,727,000) | (4,615,000) |
| | ----- | ----- |
| | 1,398,000 | 2,417,000 |
| | ----- | ----- |
| Deferred tax liabilities: | | |
| Unrealized gain on marketable securities | (451,000) | (1,506,000) |
| Excess of book basis over tax basis of investment | (366,000) | (92,000) |
| Accelerated depreciation for tax | (127,000) | (267,000) |
| Amortization of software and database costs deducted for tax, not for financial reporting | (4,000) | (102,000) |
| | ----- | ----- |
| | (948,000) | (1,967,000) |
| | ----- | ----- |
| Net deferred tax asset | \$ 450,000 | \$ 450,000 |
| | ===== | ===== |

The valuation allowance reduces total deferred tax assets to an amount management believes will likely be realized. That portion of the Company's deferred tax assets \$(2,358,000) relating to tax benefits resulting from employee stock plans will be credited to paid in capital when realizable. As of December 31, 2000, the Company has net operating loss carryforwards for Federal income tax purposes totaling approximately \$16,900,000 which expire from 2010 to 2020. Certain of these net operating losses may be limited to annual use based on IRS regulations.

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J. Commitments and Contingencies

Leases--The Company is obligated under various lease agreements covering office space and computer equipment. The lease agreements for office space contain escalation clauses based principally on increases in real estate taxes, building maintenance and utility costs. A summary of such commitments as of December 31, 2000 follows:

| Year Ending December 31, | Operating Leases | | | |
|------------------------------------|------------------|-----------------------|------------------|-------------|
| | Office Space | Computer Equipment | Capital Total | Leases |
| 2001 | \$1,150,972 | \$ 591,262 | \$1,742,234 | \$ 910,531 |
| 2002 | 777,580 | 375,899 | 1,153,479 | 372,695 |
| 2003 | 608,176 | 43,629 | 651,805 | 43,204 |
| 2004 | 410,360 | - | 410,360 | - |
| 2005 | 70,625 | - | 70,625 | - |
| | ----- | ----- | ----- | ----- |
| Total | \$3,017,713 | \$1,010,790 | \$4,028,503 | 1,326,430 |
| | ===== | ===== | ===== | |
| Less amounts representing interest | | | | 110,604 |
| | | | | ----- |
| Capital lease obligations | | | | \$1,215,826 |
| | | | | ===== |

Rent expense for the years ended December 31, 2000, 1999 and 1998 amounted to \$1,558,999, \$1,558,996 and \$1,620,855 for office space and \$862,824, \$902,687 and \$983,829 for computer equipment, respectively.

The Company leases its office facilities in Brooklyn from a limited partnership owned by the Company's Chairman and members of his family. The Company paid the partnership rent of \$540,000, \$525,000 and \$530,000 for the years ended December 31, 2000, 1999 and 1998, respectively. The lease provides for the Company to pay \$540,000 per annum through April 1, 2001.

Software Development Agreement--In July 1998, the Company entered into a software development agreement with Third Millennium Technology, Inc. ("TMT"), a corporation controlled by a former director of the Company. In connection with the agreement, the Company granted TMT a five-year option to purchase 120,000 shares of its common stock at \$1.00 per share, exercisable 60,000 at the end of each of the first two anniversaries, of which 60,000 were exercised. During 2000, the Company terminated this agreement by paying \$40,000 and continuing fees for future services provided in the contract through June 2001. The monthly fees paid to TMT consist of a declining scale fee per user of the Company's myTrack service and certain additional fees are payable in connection with revenues from online trading. Such fees and other consulting services amounted to \$189,442, \$101,550 and \$98,132 in 2000, 1999 and 1998, respectively.

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Broker-Dealer Service Agreement -- From April 1999 to August 2000 when the Company obtained its own broker-dealer license, the Company offered online trading through its myTrack service utilizing Track Securities Corporation ("TSC") as its broker-dealer. TSC is a broker-dealer owned and operated by a director of the Company. The Company licensed its myTrack trading system to a subsidiary of TSC. The Company received \$2.25 per trade pursuant to the agreement, which aggregated \$2,280,000 in 2000 and \$590,000 in 1999. In addition, TSC paid a share of the marketing and advertising costs incurred by the Company, which aggregated \$666,000 in 2000 and \$571,000 in 1999. At December 31, 2000 and 1999, the amount due from TSC of \$115,640 and \$655,483, respectively, is included in other assets. Further, the director has a five-year consulting agreement with the Company pursuant to which he is to be paid an annual fee of the greater of \$50,000 or 5% of the after-tax earnings, if any, from trading activities. In 2000 and 1999, the fee was \$50,000 and 37,500, respectively. In August 2000, the Company terminated the relationship with TSC, except for the director consulting agreement, and transferred all the trading accounts from TSC to the Company's broker-dealer, Track Data Securities Corp.

Transactions with Clearing Broker and Customers--The Company conducts business through a clearing broker which settles all trades for the Company, on a fully disclosed basis, on behalf of its customers. The Company earns commissions as an introducing broker for the transactions of its customers. In the normal course of business, the Company's customer activities involve the execution of various customer securities transactions. These activities may expose the Company to off-balance-sheet risk in the event the customer or other broker is unable to fulfill its contracted obligations and the Company has to purchase or sell the financial instrument underlying the contract at a loss.

The Company's customer securities activities are transacted on either a cash or margin basis. In margin transactions, the clearing broker extends credit to the Company's customers, subject to various regulatory margin requirements, collateralized by cash and securities in the customers' accounts. However, the Company is required to either obtain additional collateral or to sell the customer's position if such collateral is not forthcoming. The Company is responsible for any losses on such margin loans, and has agreed to indemnify its clearing broker for losses that the clearing broker may sustain from the customer accounts introduced by the Company.

Net Capital Requirements-- The SEC, NASD, and various other regulatory agencies have stringent rules requiring the maintenance of specific levels of net capital by securities brokers, including the SEC's uniform net capital rule, which governs TDSC. Net capital is defined as assets minus liabilities, plus other allowable credits and qualifying subordinated borrowings less mandatory deductions that result from excluding assets that are not readily convertible into cash and from valuing other assets, such as a firm's positions in securities, conservatively. Among these deductions are adjustments in the market value of securities to reflect the possibility of a market decline prior to disposition.

As of December 31, 2000, TDSC was required to maintain minimum net capital, in accordance with SEC rules, of approximately \$181,000 and had total net capital of \$345,000, or approximately \$164,000 in excess of minimum net capital requirements.

If TDSC fails to maintain the required net capital it may be subject to suspension or revocation of registration by the SEC and suspension or expulsion by the NASD and other regulatory bodies, which ultimately could require TDSC's liquidation. In addition, a change in the net capital rules, the imposition of new rules, a specific operating loss, or any unusually large charge against net capital could limit those operations of TDSC that require the intensive use of capital and could limit its ability to expand its business.

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Litigation--The Company is subject to legal proceedings and claims which arise in the ordinary course of its business. In the opinion of management, the amount of ultimate liability with respect to these actions will not materially affect the Company's financial statements.

K. Deferred Compensation and Savings Plans

The Company had a deferred compensation plan pursuant to which certain employees are entitled to payments after termination of their employment. The plan was based on these employees having phantom stock units prior to its public offering. In December 1995, the Board of Directors agreed to satisfy all obligations to participants under the phantom stock plan by committing to pay upon termination of employment, or sooner upon approval of the Board, 247,284 shares of Innodata common stock, adjusted for a two-for-one stock dividend declared on February 28, 2001 and payable on March 23, 2001, and 3,004,400 shares of the Company's common stock. These shares were placed in a trust as of March 31, 1996. The Board of Directors authorized distributions of the Company's common stock to participants as follows: 2000-449,900 shares; 1999-776,400 shares; and 1998-297,352 shares. In February 2001, the Board distributed 182,456 shares of Innodata common stock.

In addition, the Company has an employee savings plan under which employees may make deposits to the savings plan and receive interest at the prime rate. Amounts due to employees under the plan aggregated \$278,056 at December 31, 2000.

L. Capital Stock

Common Stock--The Company's Board of Directors, with subsequent stockholder approval, increased the authorized shares of common stock of the Company from 30 million to 60 million in April, 1999; to 75 million in November, 1999; and to 300 million in January 2000. The Company declared two-for-one stock splits in the form of stock dividends payable on November 17, 1999 and December 29, 1999, respectively.

In June 1999, the Company issued 137,928 shares of its common stock valued at \$500,000 to Net Earnings Corp., a privately held Internet-based provider to the individual and professional investment communities of future dates of public company earnings reports, dividends, conference calls, IPO/secondary offerings and other timing information, in exchange for a 10% ownership interest in Net Earnings. The investment is carried at cost and is included in other assets. The Company registered these shares.

In July 1999, the Company sold pursuant to private placements 1,933,336 shares of its common stock and realized net proceeds, after expenses, of \$5,201,258. In connection with such sales, the Company also issued three-year warrants to purchase 603,332 shares of its common stock at \$4.22 per share, of which 433,248 are outstanding at December 31, 2000. The Company registered the shares and the shares underlying the warrants.

In May 2000, the Company acquired approximately 2% of iAnalyst, Inc. ("IA") and Silicon Summit Technologies Inc. ("SST"), both privately held companies, in exchange for an aggregate of 326,280 shares of the Company's common stock. The Company registered these shares. IA was to provide the individual investor Internet-based access to independent equity research analysts. SST is a leading provider of e-finance solutions and services for B4B electronic securities trading. Further, in May 2000, the Company's preliminary agreements to acquire 10% of MainStreetIPO.com and FlexTrader.com were terminated. As of December 31, 2000, the Company wrote off its investment in IA totaling \$253,843.

In December 2000, the Company sold 1 million shares of its common stock in a private placement for \$1.25 per share and granted a three-year option to

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purchase 2 million shares at \$1.75 per share, exercisable after the first anniversary. The Company registered these shares and the shares to be issued on exercise of warrants.

Preferred Stock--The Company is authorized to issue up to 1,000,000 shares of \$.01 par value preferred stock. The Board of Directors is authorized to fix the terms, rights, preferences and limitations of the preferred stock and to issue the preferred stock in series which differ as to their relative terms, rights, preferences and limitations. No preferred shares have been issued.

Common Stock Reserved--At December 31, 2000, the Company reserved for issuance 8,143,130 shares of its common stock as follows: (a) 5,709,882 shares pursuant to the Company's Stock Option Plans and options issued which were not granted under the plans; and (b) 2,433,248 shares issuable upon exercise of investors' and finders' warrants.

M. Stock Options and Warrants

Stock Options--The Company adopted, with stockholder approval, the 1994, 1995, 1996 and 1998 Stock Option Plans (the "1994 Plan," "1995 Plan," "1995 DD Plan," "1996 Plan" and the "1998 Plan") which provide for the granting of options to purchase not more than an aggregate of 1,200,000, 2,000,000, 200,000, 3,200,000 and 3,200,000 shares of common stock, respectively, subject to adjustment under certain circumstances. Such options may be incentive stock options ("ISOs") within the meaning of the Internal Revenue Code of 1986, as amended, or options that do not qualify as ISOs ("Non-Qualified Options").

The option exercise price per share for a Non-Qualified Option may not be less than 85% of the fair market value per share of common stock on the date of grant and for an ISO may not be less than the fair market value per share of common stock on the date of grant (110% of such fair market value for an ISO, if the grantee owns stock possessing more than 10% of the combined voting power of all classes of the Company's stock). Options may be granted under the Stock Option Plan to all officers, directors and employees of the Company and, in addition, Non-Qualified Options may be granted to other parties who perform services for the Company. No options may be granted under the 1994 Plan after March 31, 2004, under the 1995 Plan and 1995 DD Plan after May 15, 2005, under the 1996 Plan after July 8, 2006 and under the 1998 Plan after July 9, 2008.

The Stock Option Plans may be amended from time to time by the Board of Directors of the Company. However, the Board of Directors may not, without stockholder approval, amend the Stock Option Plans to increase the number of shares of common stock which may be issued under the Stock Option Plans (except upon changes in capitalization as specified in the Stock Option Plans), decrease the minimum exercise price provided in the Plans or change the class of persons eligible to participate in the Plans.

The Company has adopted the disclosure-only provisions of FAS No. 123, "Accounting for Stock Based Compensation." Accordingly, no compensation expense has been recognized for stock options granted to employees. Had compensation cost for the Company's stock option grants been determined based on the fair value at the grant date consistent with the provisions of FAS No. 123, the Company's net income (loss) and income (loss) per share, both basic and diluted, would have been changed to the pro forma amounts as follows: net income (loss) would have been \$563,000, or \$.01 per share, in 2000, \$(5,527,000), or \$(.09) per share, in 1999, and net income would have been \$115,000, or \$.00 per share, in 1998. The fair value of options at date of grant was estimated using the Black-Scholes option pricing model with the following weighted average assumptions: an expected life of three years in 2000, two and one-half years in 1999 and three years in 1998; risk free interest rate of 6% in 2000, 6% in 1999 and 5.6% in 1998; expected volatility of 150% in 2000, 107% in 1999 and 80% in 1998; and a zero dividend yield. The effects of applying FAS No. 123 in this

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proforma disclosure are not indicative of future results.

A summary of the Company's Stock Option Plans are as follows:

| | Per Share Range of Exercise Prices | Number Outstanding | Weighted Average Remaining Contractual Life (Years) | Weighted Average Exercise Price | Number Exercisable | Weighted Average Exercise Price | Weighted Average Fair Value Date of Grant |
|------------------|---|-----------------------|---|--|-----------------------|--|---|
| Balance 1/1/98 | \$.38 - .75 | 4,156,200 | 3 | \$.57 | 3,106,864 | \$.60 | |
| | \$1.25 - 1.50 | 540,000 | 2 | \$1.28 | 453,328 | \$1.29 | |
| | | ----- | | | ----- | | |
| | | 4,696,200 | | | 3,560,192 | | |
| | | | | | ===== | | |
| Canceled | \$.50 - .75 | (56,300) | 2 | \$.58 | | | |
| Exercised | \$.38 - 1.26 | (3,609,096) | 2 | \$.66 | | | |
| Granted | \$.75 - 1.25 | 1,599,000 | 4 | \$.77 | | | \$. |
| | | ----- | | | | | |
| Balance 12/31/98 | \$.38 - .75 | 2,391,088 | 4 | \$.67 | 811,416 | \$.55 | |
| | \$1.00 - 1.50 | 238,716 | 2 | \$1.25 | 132,716 | \$1.34 | |
| | | ----- | | | ----- | | |
| | | 2,629,804 | | | 944,132 | | |
| | | | | | ===== | | |
| Canceled | \$.50 - 3.50 | (32,200) | 2 | \$1.62 | | | |
| Exercised | \$.50 - 1.50 | (1,262,472) | 3 | \$.71 | | | |
| Granted | \$1.50 - 7.00 | 1,778,700 | 4 | \$2.65 | | | \$1. |
| | | ----- | | | | | |
| Balance 12/31/99 | \$.38 - .75 | 1,243,332 | 3 | \$.69 | 827,332 | \$.65 | |
| | \$1.00 - 1.75 | 734,000 | 2 | \$1.48 | 101,000 | \$1.36 | |
| | \$2.50 - 7.00 | 1,136,500 | 4 | \$3.27 | 60,000 | \$3.09 | |
| | | ----- | | | ----- | | |
| | | 3,113,832 | | | 988,332 | | |
| | | | | | ===== | | |
| Canceled | \$.50 - 5.50 | (551,500) | 2 | \$2.53 | | | |
| Exercised | \$.50 - 6.06 | (411,550) | 2 | \$1.23 | | | |
| Granted | \$1.50 - 6.75 | 1,974,450 | 4 | \$1.79 | | | \$1. |
| | | ----- | | | | | |
| Balance 12/31/00 | \$.38 - .75 | 935,282 | 2 | \$.67 | 935,282 | \$.67 | |
| | \$1.00 - 1.75 | 2,278,050 | 1 | \$1.49 | 244,900 | \$1.45 | |
| | \$2.50 - 7.00 | 911,900 | 3 | \$3.56 | 589,650 | \$3.14 | |
| | | ----- | | | ----- | | |
| | | 4,125,232 | | | 1,769,832 | | |
| | | ===== | | | ===== | | |

The options have a term of five years. The above table includes options to purchase 86,672 shares which were not granted pursuant to any plan, but contain the same conditions as those provided in the Plans. In February 2001, the Company granted options to purchase 1,000,000 shares of its common stock at \$1.50 per share to its Chairman. Amounts due from the exercise of options at

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December 31, 1999 in the amount of \$122,412, included in other assets, was received in January 2000.

N. Retirement Plan

The Company has a profit sharing plan, which qualifies, under Section 401(k) of the Internal Revenue Code. The plan covers substantially all employees who have completed six months of service. Company contributions to the plan are discretionary and vest at a rate of 20% after three years of service, and 20% each year thereafter until employees are fully vested after 7 years. Contributions to the plan for the years ended December 31, 2000, 1999 and 1998 were \$52,395, 46,084 and \$35,945, respectively.

O. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
|--|----------------------------------|-------------------|------------------|-------------------|
| | (in thousands, except per share) | | | |
| 2000 | | | | |
| Revenues | \$12,890 | \$13,033 | \$14,871 | \$17,973 |
| Net (loss) income | (1,878) | (2,743) | 1,641 | 5,039 |
| Basic and diluted net (loss) income per share | \$(.03) | \$(.04) | \$.03 | \$.08 |
| 1999 | | | | |
| Revenues | \$11,656 | \$11,662 | \$11,518 | \$11,784 |
| Net loss | (35) | (686) | (2,340) | (1,987) |
| Basic and diluted net loss per share | \$(.00) | \$(.01) | \$(.04) | \$(.03) |

INDEPENDENT AUDITORS' REPORT

Board of Directors and Stockholders
Innodata Corporation
Hackensack, New Jersey

We have audited the accompanying consolidated balance sheets of Innodata Corporation and subsidiaries as of December 31, 2000 and 1999, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Innodata Corporation and subsidiaries as of December 31, 2000 and 1999, and the consolidated results of their operations and their consolidated cash flows for each of the three years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States of America.

/S/ Grant Thornton LLP
 New York, New York
 February 23, 2001
 (Except for Note 5 as to which the date is February 28, 2001)

INNODATA CORPORATION AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2000 AND 1999

| | 2000 | 1999 |
|--|--------------|--------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and equivalents | \$ 9,040,207 | \$ 3,380,242 |
| Accounts receivable-net of allowance for doubtful accounts of \$884,000 in 2000 and \$580,000 in 1999 | 5,799,102 | 5,247,428 |
| Prepaid expenses and other current assets | 1,194,158 | 396,743 |
| Deferred income taxes | 839,000 | 540,000 |
| | ----- | ----- |
| Total current assets | 16,872,467 | 9,564,413 |
| PROPERTY AND EQUIPMENT - NET | 9,464,056 | 4,891,992 |
| OTHER ASSETS | 1,609,514 | 1,189,472 |
| | ----- | ----- |
| TOTAL | \$27,946,037 | \$15,645,877 |
| | ===== | ===== |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| CURRENT LIABILITIES: | | |
| Current portion of long-term debt | \$ - | \$ 19,629 |
| Accounts payable | 3,196,112 | 1,553,585 |
| Accrued salaries and wages | 3,060,282 | 1,529,753 |
| Income and other taxes | 1,110,208 | 495,628 |
| | ----- | ----- |
| Total current liabilities | 7,366,602 | 3,598,595 |
| | ----- | ----- |
| LONG-TERM DEBT, less current portion | - | 5,188 |
| | ----- | ----- |
| DEFERRED INCOME TAXES | 1,263,000 | 390,000 |
| | ----- | ----- |

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COMMITMENTS AND CONTINGENT LIABILITIES

STOCKHOLDERS' EQUITY:

| | | |
|------------------------------------|--------------|--------------|
| Common stock, \$.01 par value- | | |
| authorized 75,000,000 shares; | | |
| issued - 21,688,214 shares in | | |
| 2000 and 20,535,772 shares in 1999 | 216,882 | 205,356 |
| Additional paid-in capital | 12,239,122 | 10,754,521 |
| Retained earnings | 7,081,400 | 913,186 |
| | ----- | ----- |
| | 19,537,404 | 11,873,063 |
| Less: treasury stock - at cost; | | |
| 576,996 shares | (220,969) | (220,969) |
| | ----- | ----- |
| Total stockholders' equity | 19,316,435 | 11,652,094 |
| | ----- | ----- |
| TOTAL | \$27,946,037 | \$15,645,877 |
| | ===== | ===== |

INNODATA CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2000, 1999 and 1998

| | 2000 | 1999 | 1998 |
|---|--------------|--------------|--------------|
| REVENUES | \$50,731,476 | \$27,490,138 | \$19,593,353 |
| | ----- | ----- | ----- |
| OPERATING COSTS AND EXPENSES | | | |
| Direct operating costs | 34,457,884 | 17,853,702 | 13,068,660 |
| Selling and administrative expenses | 7,247,901 | 6,783,313 | 4,982,127 |
| Impairment of assets and other | - | - | 133,141 |
| Gain on foreign currency contracts | - | - | (487,458) |
| Interest expense | 42,883 | 10,542 | 77,594 |
| Interest income | (154,406) | (111,143) | (98,391) |
| | ----- | ----- | ----- |
| Total | 41,594,262 | 24,536,414 | 17,675,673 |
| | ----- | ----- | ----- |
| INCOME BEFORE PROVISION | | | |
| FOR (BENEFIT FROM) INCOME TAXES | 9,137,214 | 2,953,724 | 1,917,680 |
| PROVISION FOR (BENEFIT FROM) INCOME TAXES | 2,969,000 | 841,000 | (332,000) |
| | ----- | ----- | ----- |
| NET INCOME | \$ 6,168,214 | \$ 2,112,724 | \$ 2,249,680 |
| | ===== | ===== | ===== |
| BASIC INCOME PER SHARE | \$.30 | \$.11 | \$.13 |
| | ===== | ===== | ===== |
| DILUTED INCOME PER SHARE | \$.26 | \$.10 | \$.12 |
| | ===== | ===== | ===== |

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INNODATA CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2000, 1999 and 1998

| | Common Shares | Stock Amount | Additional Paid-in Capital | Retained Earnings (Deficit) | Treasury Stock | Tota |
|---|------------------|-----------------|----------------------------------|-----------------------------------|-------------------|----------|
| January 1, 1998 | 18,260,832 | \$182,608 | \$ 8,703,340 | \$(3,449,218) | \$(182,597) | \$ 5,254 |
| Net income | - | - | - | 2,249,680 | - | 2,249 |
| Issuance of common stock upon exercise of stock options | 79,992 | 800 | 19,197 | - | - | 19 |
| Purchase of treasury stock | - | - | - | - | (38,372) | (38, |
| December 31, 1998 | 18,340,824 | 183,408 | 8,722,537 | (1,199,538) | (220,969) | 7,485 |
| Net income | - | - | - | 2,112,724 | - | 2,112 |
| Issuance of common stock upon exercise of stock options | 2,054,956 | 20,548 | 892,913 | - | - | 913 |
| Issuance of common stock for software development | 139,992 | 1,400 | 67,196 | - | - | 68 |
| Income tax benefit from exercise of stock options | - | - | 1,071,875 | - | - | 1,071 |
| December 31, 1999 | 20,535,772 | 205,356 | 10,754,521 | 913,186 | (220,969) | 11,652 |
| Net income | - | - | - | 6,168,214 | - | 6,168 |
| Issuance of common stock upon exercise of stock options and warrants | 1,152,442 | 11,526 | 689,601 | - | - | 701 |
| Income tax benefit from exercise of stock options | - | - | 795,000 | - | - | 795 |
| December 31, 2000 | 21,688,214 | \$216,882 | \$12,239,122 | \$7,081,400 | \$(220,969) | \$19,316 |

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INNODATA CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2000, 1999 and 1998

| | 2000 | 1999 | 1998 |
|---|--------------|--------------|--------------|
| OPERATING ACTIVITIES: | | | |
| Net income | \$ 6,168,214 | \$ 2,112,724 | \$ 2,249,688 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 2,959,060 | 1,797,031 | 1,322,722 |
| Tax benefit from exercise of options | 795,000 | 1,071,875 | - |
| Restructuring costs, impairment of assets and other | - | - | 133,144 |
| Loss (gain) on disposal of fixed assets | 30,447 | 71,630 | (74,399) |
| (Gain) on foreign currency contracts | - | - | (487,455) |
| Deferred income taxes | 574,000 | (199,000) | (482,000) |
| Changes in operating assets and liabilities: | | | |
| Accounts receivable | (551,674) | (2,304,006) | 419,833 |
| Prepaid expenses and other current assets | (977,415) | (326,131) | 120,455 |
| Other assets | (409,034) | (73,565) | 23,666 |
| Accounts payable and accrued expenses | 1,653,394 | 258,238 | (76,800) |
| Liability for foreign currency contracts | - | - | (912,544) |
| Accrued salaries and wages | 1,530,529 | 680,145 | 208,422 |
| Income and other taxes payable | 614,580 | (210,855) | 102,300 |
| | ----- | ----- | ----- |
| Net cash provided by operating activities | 12,387,101 | 2,878,086 | 2,547,011 |
| | ----- | ----- | ----- |
| INVESTING ACTIVITIES: | | | |
| Capital expenditures | (7,403,446) | (3,890,848) | (1,024,622) |
| Proceeds from disposal of property and equipment | - | - | 182,911 |
| | ----- | ----- | ----- |
| Net cash used in investing activities | (7,403,446) | (3,890,848) | (841,711) |
| | ----- | ----- | ----- |
| FINANCING ACTIVITIES: | | | |
| Payments of borrowings | (24,817) | (55,990) | (121,244) |
| Proceeds from exercise of stock options | 701,127 | 913,461 | 19,999 |
| Purchase of treasury stock | - | - | (38,377) |
| | ----- | ----- | ----- |
| Net cash provided by (used in) financing activities | 676,310 | 857,471 | (139,622) |
| | ----- | ----- | ----- |
| INCREASE (DECREASE) IN CASH AND EQUIVALENTS | 5,659,965 | (155,291) | 1,565,688 |
| CASH AND EQUIVALENTS, BEGINNING OF YEAR | 3,380,242 | 3,535,533 | 1,969,855 |
| | ----- | ----- | ----- |
| CASH AND EQUIVALENTS, END OF YEAR | \$ 9,040,207 | \$ 3,380,242 | \$ 3,535,533 |
| | ===== | ===== | ===== |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION | | | |
| Cash paid during the year for: | | | |
| Interest | \$ 42,883 | \$ 10,542 | \$ 32,522 |

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| | | | | | |
|--------------|--------------|----|---------|----|---|
| Income taxes | \$ 1,018,000 | \$ | 310,698 | \$ | - |
|--------------|--------------|----|---------|----|---|

INNODATA CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2000, 1999 and 1998

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business and Basis of Presentation - Innodata Corporation and subsidiaries (the "Company") is a leading provider of digital content outsourcing services, specializing in XML transformations and content enhancement, offering a "single solution" for companies needing to create high-value, large scale web and on-line content. The Company's services are performed in production facilities located in the Philippines, Sri Lanka, India and the United States. The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly owned. All intercompany transactions and balances have been eliminated in consolidation.

Use of Estimates - In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition - Revenue is recognized in the period in which services are performed and delivered.

Deferred Production Costs - Deferred production costs consist of actual labor and certain other costs incurred for uncompleted and unbilled services. Included in prepaid expenses and other current assets at December 31, 2000 and 1999 are deferred production costs totaling \$876,000 and \$46,000, respectively.

Foreign Currency - The functional currency for the Company's production operations located in the Philippines, India and Sri Lanka is U.S. dollars. As such, transactions denominated in Philippine pesos, Indian and Sri Lanka rupees were translated to U.S. dollars at rates which approximate those in effect on transaction dates. Monetary assets and liabilities denominated in foreign currencies at December 31, 2000 and 1999 were translated at the exchange rate in effect as of those dates. Exchange losses resulting from such transactions in 2000 totaled approximately \$180,000. Exchange gains and losses in 1999 and 1998 resulting from such transactions were immaterial.

Statement of Cash Flows - For financial statement purposes (including cash flows), the Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Depreciation - Depreciation is provided on the straight-line method over the estimated useful lives of the related assets which are as follows:

Estimated Useful

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| Category | Lives |
|------------------------|------------|
| Equipment | 3-5 years |
| Furniture and fixtures | 5-10 years |

Leasehold improvements are amortized on the straight-line basis over the shorter of their estimated useful lives or the lives of the leases.

Income Taxes - Deferred taxes are determined based on the difference between the financial statement and tax bases of assets and liabilities, using enacted tax rates, as well as any net operating loss or tax credit carryforwards expected to reduce taxes payable in future years.

Accounting for Stock-Based Compensation - The Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation," which became effective in 1996. As permitted by SFAS No. 123, the Company has elected to continue to account for employee stock options under APB No. 25, "Accounting for Stock Issued to Employees."

Fair Value of Financial Instruments - The Company has estimated the fair value of financial instruments using available market information and other valuation methodologies in accordance with SFAS No. 107, "Disclosures About Fair Value of Financial Instruments." Management of the Company believes that the fair value of financial instruments for which estimated fair value has not been specifically presented, primarily cash and accounts receivable, is not materially different than the related carrying value. Determinations of fair value are based on subjective data and significant judgment relating to timing of payments and collections and the amounts to be realized. Different assumptions and/or estimation methodologies might have a material effect on the fair value estimates. Accordingly, the estimates of fair value are not necessarily indicative of the amounts the Company would realize in a current market exchange.

Income Per Share - Basic earnings per share is based on the weighted average number of common shares outstanding without consideration of potential common stock. Diluted earnings per share is based on the weighted average number of common and potential common shares outstanding. The calculation takes into account the shares that may be issued upon exercise of stock options, reduced by the shares that may be repurchased with the funds and tax benefits received from the exercise, based on average prices during the year.

2. PROPERTY AND EQUIPMENT

Property and equipment, stated at cost less accumulated depreciation and amortization, consist of the following:

| December 31, | 2000 | 1999 |
|------------------------|--------------|--------------|
| Equipment | \$12,447,297 | \$ 9,522,707 |
| Furniture and fixtures | 724,893 | 501,768 |
| Leashold improvements | 2,047,891 | 1,045,865 |

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| | | |
|---|--------------|--------------|
| Total | 15,220,081 | 11,070,340 |
| Less accumulated depreciation and amortization | 5,756,025 | 6,178,348 |
| | \$ 9,464,056 | \$ 4,891,992 |
| | ===== | ===== |

As of December 31, 2000 and 1999, the net book value of property and equipment located at the Company's production facilities in the Philippines, India and Sri Lanka was approximately \$9,046,000 and \$4,217,000, respectively.

3. INCOME TAXES

The significant components of the provision for (benefit from) income taxes are as follows:

| | 2000 | 1999 | 1998 |
|---|-------------|------------|--------------|
| Current income tax expense: | | | |
| Foreign | \$ 61,000 | \$ - | \$ 50,000 |
| Federal | 2,040,000 | 884,000 | 55,000 |
| State and local | 294,000 | 156,000 | 45,000 |
| | ----- | ----- | ----- |
| | 2,395,000 | 1,040,000 | 150,000 |
| Deferred income tax expense (benefit) | 574,000 | (199,000) | (482,000) |
| | ----- | ----- | ----- |
| Provision for (benefit from) income taxes | \$2,969,000 | \$ 841,000 | \$ (332,000) |
| | ===== | ===== | ===== |

During 1998, the Company utilized approximately \$1,100,000 of net operating loss carryforwards, resulting in a tax benefit of \$375,000.

Reconciliation of the U.S. statutory rate with the Company's effective tax rate is summarized as follows:

| | 2000 | 1999 | 1998 |
|---|-------|-------|--------|
| Federal statutory rate | 34.0% | 34.0% | 34.0% |
| Effect of: | | | |
| Valuation allowance | - | - | (35.0) |
| Utilization of net operating loss carryforwards | | | |

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| | | | |
|--|-------|-------|---------|
| not previously recognized | - | - | (19.5) |
| State income taxes (net of federal tax benefit) | 1.6 | 0.1 | 1.6 |
| Effect of foreign tax holiday, net of foreign income not deemed permanently reinvested | (3.4) | (8.1) | - |
| Foreign taxes | 0.7 | - | 2.6 |
| Other | (0.4) | 2.5 | (1.0) |
| | ---- | ---- | ---- |
| Effective rate | 32.5% | 28.5% | (17.3)% |
| | ==== | ==== | ===== |

As of December 31, 2000 and 1999, the composition of the Company's net deferred income taxes is as follows:

| | 2000 | 1999 |
|--|--------------|------------|
| Deferred income tax assets: | | |
| Allowances not currently deductible | \$ 726,000 | \$ 355,000 |
| Expenses not deductible until paid | 113,000 | 60,000 |
| Net operating loss carryforwards | - | 225,000 |
| | ----- | ----- |
| | 839,000 | 640,000 |
| Less: valuation allowance | - | (100,000) |
| | ----- | ----- |
| | 839,000 | 540,000 |
| | ----- | ----- |
| Deferred income tax liabilities: | | |
| Foreign source income, not taxable until repatriated | (1,500,000) | (415,000) |
| Depreciation and amortization | 237,000 | 25,000 |
| | ----- | ----- |
| | (1,263,000) | (390,000) |
| | ----- | ----- |
| Net deferred income tax (liability)/asset | \$ (424,000) | \$ 150,000 |
| | ===== | ===== |

4. COMMITMENTS AND CONTINGENT LIABILITIES

Line of Credit - The Company has a line of credit with a bank in the amount of \$3 million. The line is collateralized by accounts receivable. Interest is charged at 1/2% above the bank's prime rate and is due on demand. The line was unused at December 31, 2000.

Leases - The Company is obligated under various operating lease agreements for office and production space. The agreements contain escalation clauses and requirements that the Company pay taxes, insurance and maintenance costs. The lease agreements for production space in the Philippines, which expire through 2007, contain provisions pursuant to which the Company may cancel the leases at any time. The annual rental for the leased space in the Philippines is approximately \$950,000. For the years ended December 31, 2000, 1999 and 1998, rent expense for office and production space totaled approximately \$1,600,000,

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\$850,000 and \$700,000, respectively.

In addition, the Company leases certain equipment under short-term operating lease agreements. Pursuant to the lease agreements, the Company has the option to purchase some or all of the equipment at fixed amounts. For the year ended December 31, 2000, rent expense for equipment totaled approximately \$900,000.

At December 31, 2000, future minimum annual rental commitments on non-cancellable leases (excluding equipment leases with terms less than one year) are as follows:

| | |
|------------|-------------|
| 2001 | \$ 570,000 |
| 2002 | 500,000 |
| 2003 | 295,000 |
| 2004 | 295,000 |
| Thereafter | 1,600,000 |
| | ----- |
| | \$3,260,000 |
| | ===== |

Litigation - In response to an arbitration proceeding brought by the Company against a former customer to collect past due amounts for services performed, the former customer has filed an amended answer with counterclaims alleging in substance breach of contract and warranty. These counterclaims seek compensatory damages of not less than \$1,000,000 and punitive damages of \$500,000. The amended answer was filed by the former customer after the New York State Supreme Court granted the Company's petition to compel arbitration. Management believes that the counterclaims are without merit, and intends to vigorously pursue its claims against the former customer.

In addition, the Company is subject to various other legal proceedings and claims which arise in the ordinary course of business.

While the outcome of these matters is currently not determinable, management believes their outcome will not have a material adverse effect on the Company's financial statements.

Foreign Currency - The Company's production facilities are located in the Philippines, India and Sri Lanka. To the extent that the currencies of these countries fluctuate, the Company is subject to risks of changing costs of production after pricing is established for certain customer projects. However, most significant contracts contain provisions for price renegotiation.

Other Commitments - The Company has a collective bargaining agreement with certain employees at its Manila facility which provides for approximately 12% wage increases per annum plus one-half of any government mandated increases through March 31, 2001.

Philippine Pension Requirement - The Philippine government enacted legislation requiring businesses to provide a lump-sum pension payment to employees working at least five years and who are employed by the Company at age 60. Those eligible employees are to receive approximately 59% of one month's

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pay for each year of employment with the Company. The terms of the collective bargaining agreement provide benefits similar to the government. Based on actuarial assumptions and calculations in accordance with SFAS No. 87, "Employers' Accounting for Pensions," the liability for the future payment is insignificant at December 31, 2000. Under the legislation, the Company is not required to fund future costs, if any.

5. CAPITAL STOCK

Common Stock - Effective March 25, 1998, the Company's stockholders approved a one-for-three reverse stock split. On September 9, 1999 and December 7, 2000, the Company paid a three-for-one and a two-for-one stock dividend, respectively. On February 28, 2001, the Company declared a two-for-one stock dividend payable on March 23, 2001, and the stockholders increased the number of common shares the Company is authorized to issue to 75,000,000. The financial statements and notes thereto, including all share and per share amounts, have been restated to reflect all such splits.

Preferred Stock - The Board of Directors is authorized to fix the terms, rights, preferences and limitations of the preferred stock and to issue the preferred stock in series which differ as to their relative terms, rights, preferences and limitations.

Common Stock Reserved - At December 31, 2000, the Company reserved for issuance 8,942,884 shares of common stock pursuant to the Company's Stock Option Plans (including 1,099,164 options issued to the Company's Chairman and its President which were not granted under the plans).

6. STOCK OPTIONS AND WARRANTS

Stock Options

The Company adopted, with stockholder approval, 1993, 1994, 1995, 1996 and 1998 Stock Option Plans (the "1993 Plan," "1994 Plan," "1994 DD Plan," "1995 Plan," "1996 Plan" and the "1998 Plan") which provide for the granting of options to purchase not more than an aggregate of 1,050,000, 1,260,000, 210,000, 2,400,000, 1,999,992 and 3,600,000 shares of common stock, respectively, subject to adjustment under certain circumstances. Such options may be incentive stock options ("ISOs") within the meaning of the Internal Revenue Code of 1986, as amended, or options that do not qualify as ISOs ("Non-Qualified Options").

The option exercise price per share may not be less than the fair market value per share of common stock on the date of grant (110% of such fair market value for an ISO, if the grantee owns stock possessing more than 10% of the combined voting power of all classes of the Company's stock). Options may be granted under the Stock Option Plan to all officers, directors and employees of the Company and, in addition, Non-Qualified Options may be granted to other parties who perform services for the Company. No options may be granted under the 1993 Plan after April 30, 2003, under the 1994 Plan and 1994 DD Plan, after May 19, 2004, under the 1995 Plan, after May 16, 2005, under the 1996 Plan, after July 8, 2006 and under the 1998 Plan, after July 8, 2008.

The Plans may be amended from time to time by the Board of Directors of the Company. However, the Board of Directors may not, without stockholder approval, amend the Plans to increase the number of shares of common stock which may be issued under the Plans (except upon changes in capitalization as specified in the Plans), decrease the minimum exercise price provided in the Plans or change the class of persons eligible to participate in the Plans.

The Company has adopted the disclosure-only provisions of SFAS No. 123, "Accounting for Stock Based Compensation." Accordingly, no compensation expense has been recognized for stock options granted to employees. Had compensation

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cost for the Company's stock option grants been determined based on the fair value at the grant date for awards in 2000, 1999 and 1998 consistent with the provisions of SFAS No. 123, the Company's net income would have been \$5.7 million or \$.28 per share, basic, and \$.25 per share, diluted in 2000, \$1.8 million, or \$.10 per share, basic, and \$.08 per share, diluted, in 1999, and \$1.5 million, or \$.08 per share, basic and diluted, in 1998. The fair value of options at date of grant was estimated using the Black-Scholes pricing model with the following weighted average assumptions: expected life of four years; risk free interest rate of 6% in 2000, 5% in 1999 and 1998, expected volatility of 115% in 2000 and 107% in 1999 and 1998; and a zero dividend yield. The effects of applying SFAS No. 123 in this disclosure are not indicative of future disclosures.

| | Per Share Range of Exercise Prices | Number Outstanding | Weighted Average Remaining Contractual Life | Weighted Average Exercise Price | Number Exercisable | Weighted Average Exercise Price | Weighted Average Fair Value, Date of Grant |
|-------------------------|---|-----------------------|---|--|-----------------------|--|---|
| Balance 1/1/98 | \$0.25 - 0.81 | 2,954,304 | 4 | \$0.53 | 1,391,628 | \$0.68 | |
| | \$0.85 - 1.75 | 2,174,292 | 3 | \$1.17 | 1,127,952 | \$1.08 | |
| | | ----- | | | ----- | | |
| | | 5,128,596 | | | 2,519,580 | | |
| | | | | | ===== | | |
| Cancelled | \$0.31 - 0.88 | (1,936,392) | | | | | |
| Cancelled | \$0.95 - 1.75 | (1,950,516) | | | | | |
| Granted | \$0.25 - 0.53 | 2,115,588 | 5 | \$0.46 | | | \$0.33 |
| Granted and Repriced | \$0.42 - 0.72 | 3,207,120 | 2 | \$0.53 | | | \$0.22 |
| Granted and Repriced | \$1.38 | 399,996 | 3 | \$1.29 | | | \$0.17 |
| Exercised | \$0.25 | (79,992) | | | | | |
| | | ----- | | | | | |
| Balance 12/31/98 | \$0.25 - 0.75 | 6,446,604 | 3 | \$0.47 | 1,169,952 | \$0.34 | |
| | \$1.19 - 1.49 | 437,796 | 2 | \$1.31 | 37,800 | \$1.47 | |
| | | ----- | | | ----- | | |
| | | 6,884,400 | | | 1,207,752 | | |
| | | | | | ===== | | |
| Cancelled | \$0.25 - 0.57 | (425,388) | 3 | \$0.38 | | | |
| Granted | \$0.67 - 2.00 | 1,249,200 | 5 | \$1.05 | | | \$0.82 |
| Exercised | \$0.25 - 0.75 | (1,946,956) | | \$0.48 | | | |
| | | ----- | | | | | |
| Balance 12/31/99 | \$0.25 - 0.47 | 1,321,320 | 2 | \$0.34 | 1,321,320 | \$0.34 | |
| | \$0.50 - 0.75 | 3,645,740 | 3 | \$0.58 | 2,056,940 | \$0.57 | |
| | \$1.19 - 2.00 | 794,196 | 2 | \$1.62 | 437,796 | \$1.31 | |
| | | ----- | | | ----- | | |
| | | 5,761,256 | | | 3,816,056 | | |
| | | | | | ===== | | |
| Cancelled | \$0.35 - \$2.00 | (267,840) | 5 | \$0.85 | | | |
| Granted | \$1.57 - \$2.69 | 2,729,600 | | \$1.97 | | | \$1.58 |
| Exercised | \$0.25 - \$2.00 | (902,440) | | \$0.61 | | | |

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| | | | | | | | |
|------------------|-----------------|-----------|---|--------|-----------|--------|--|
| | | | | | | | |
| | | | | | | | |
| Balance 12/31/00 | \$0.25 - \$0.47 | 1,019,640 | 2 | \$0.34 | 1,019,640 | \$0.34 | |
| | \$0.50 - \$0.75 | 2,858,632 | 3 | \$0.58 | 2,429,632 | \$0.56 | |
| | \$1.29 | 399,996 | 2 | \$1.29 | 399,996 | \$1.29 | |
| | \$1.56 - \$2.25 | 2,699,108 | 4 | \$1.90 | 295,984 | \$1.73 | |
| | \$2.50 - \$2.69 | 343,200 | 5 | \$2.52 | - | - | |
| | | | | | | | |
| | | 7,320,576 | | | 4,145,252 | | |
| | | | | | | | |

Subsequent to December 31, 2000, the Company granted options to purchase 1,142,000 shares at \$5.44 per share.

8. SEGMENT REPORTING

Until December 31, 1999 when the Company phased out its document imaging services, the Company's operations were classified in two business segments; Internet and on-line digital content outsourcing services, and document imaging services.

Internet and on-line digital content outsourcing services provide all the necessary steps for product development and data conversion to enable its clients to create and disseminate vast amounts of information both on-line and via the Internet. Its clients represent an array of Internet content providers and major electronic publishers of legal, scientific, educational, and medical information, as well as document-intensive companies repurposing their proprietary information into electronic resources that can be referenced via web-centric applications.

In 1999 and 1998, one client accounted for 17% and 13%, respectively, of the Company's digital content outsourcing services' revenues. In addition, during 1998, one client that is comprised of twelve affiliated companies, accounted for 21% of such revenues. Further, in 1999 and 1998, export revenues, all of which were derived from European clients, accounted for 21% and 22%, respectively, of such revenues.

The document imaging services segment provided high volume backfile and day-forward conversion of business documents, technical manuals, engineering drawings, aperture cards, roll film, and microfiche, providing high quality computer accessible images and indexing.

| | | | |
|--------------------------------------|--------------|------------------|------|
| | | 1999 | 1998 |
| Revenues | | | |
| Digital content outsourcing services | \$26,459,447 | \$17,401,346 | |
| Document imaging services | 1,030,691 | 2,192,007 | |
| | | | |
| Total consolidated | \$27,490,138 | \$19,593,353 | |
| | | | |
| Income (loss) before income taxes | | | |
| Digital content outsourcing services | \$ 3,523,682 | \$ 3,151,928 (a) | |
| Document imaging services | (569,958) | (1,234,248) (b) | |

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| | | |
|--------------------|--------------------------------|--------------------------------|
| Total consolidated | ----- \$ 2,953,724 ===== | ----- \$ 1,917,680 ===== |
|--------------------|--------------------------------|--------------------------------|

(a) Includes gain on foreign currency contracts and reversal of previously estimated liabilities of \$736,000.

(b) Includes write off of goodwill of \$382,000.

| | 1999 | 1998 |
|--------------------------------------|--------------|--------------|
| Total assets | | |
| Digital content outsourcing services | \$15,437,090 | \$ 9,520,116 |
| Document imaging services | 208,787 | 1,075,392 |
| | ----- | ----- |
| Total consolidated | \$15,645,877 | \$10,595,508 |
| | ===== | ===== |
| Capital expenditures | | |
| Digital content outsourcing services | \$ 3,881,870 | \$ 980,218 |
| Document imaging services | 8,978 | 44,404 |
| | ----- | ----- |
| Total consolidated | \$ 3,890,848 | \$ 1,024,622 |
| | ===== | ===== |
| Depreciation and amortization | | |
| Digital content outsourcing services | \$ 1,660,801 | \$ 1,116,445 |
| Document imaging services | 136,230 | 206,276 |
| | ----- | ----- |
| Total consolidated | \$ 1,797,031 | \$ 1,322,721 |
| | ===== | ===== |

In 2000, one client accounted for 54% of the Company's total revenues, and export revenues, most of which were derived from European clients, accounted for 10% of revenues. A significant amount of the Company's revenues are derived from clients in the publishing industry. Accordingly, the Company's accounts receivable generally include significant amounts due from such clients.

9. INCOME PER SHARE

| | 2000 | 1999 | 1998 |
|------------|--------------|--------------|--------------|
| Net income | \$ 6,168,214 | \$ 2,112,724 | \$ 2,249,680 |

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| | | | |
|---|------------|------------|------------|
| | ===== | ===== | ===== |
| Weighted average common shares outstanding | 20,261,644 | 18,701,488 | 17,740,896 |
| Dilutive effect of outstanding warrants and options | 3,016,339 | 2,592,264 | 376,692 |
| | ----- | ----- | ----- |
| Adjusted for dilutive computation | 23,277,983 | 21,293,752 | 18,117,588 |
| | ===== | ===== | ===== |
| Basic income per share | \$.30 | \$.11 | \$.13 |
| | ===== | ===== | ===== |
| Diluted income per share | \$.26 | \$.10 | \$.12 |
| | ===== | ===== | ===== |

10. IMPAIRMENT OF ASSETS AND OTHER

In the fourth quarter of 1998, management determined that the goodwill associated with the document imaging services business could not be recovered. Accordingly, the unamortized amount of \$382,000 was written off at December 31, 1998. Further, certain estimated liabilities for restructuring and other items accrued in 1997 totaling \$249,000 were deemed in excess of actual amounts payable and were recognized as income in the fourth quarter of 1998.

11. FOREIGN CURRENCY CONTRACTS

In the second quarter of 1998, the Company reached an agreement in connection with foreign currency contracts that were in dispute. This resulted in a reduction of the estimated liability previously provided by \$487,000 that was recognized as a gain.

12. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
|------------------------------|----------------------------------|-------------------|------------------|-------------------|
| | (in thousands, except per share) | | | |
| 2000 | | | | |
| Revenues | \$8,839 | \$9,712 | \$13,039 | \$19,141 |
| Net income | 258 | 429 | 1,468 | 4,013 |
| Net income per share | \$.01 | \$.02 | \$.07 | \$.19 |
| Diluted net income per share | \$.01 | \$.02 | \$.06 | \$.16 |
| 1999 | | | | |
| Revenues | \$5,611 | \$7,026 | \$7,073 | \$7,780 |
| Net income | 291 | 968 | 585 | 269 |
| Net income per share | \$.02 | \$.05 | \$.03 | \$.01 |
| Diluted net income per share | \$.02 | \$.05 | \$.03 | \$.01 |

PART III

Item 10. Directors and Executive Officers of Registrant

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Officers and Directors

The officers and directors of the Company are as follows:

| Name | Age | Position |
|---------------------|-----|---|
| Barry Hertz | 51 | Chairman of the Board, Chief Executive Officer |
| Martin Kaye | 53 | Executive Vice President, Chief Financial Officer, Secretary and Director |
| Jay Gelman | 39 | Senior Vice President - Sales |
| Stanley Stern | 50 | Senior Vice President - Customer Relations, Director |
| E. Bruce Fredrikson | 63 | Director |
| William Karsh | 47 | Director |
| Isaac Schlesinger | 54 | Director |
| Jack Spiegelman | 62 | Director |

On March 31, 1996, Track Data Corporation ("Track") merged (the "Merger") into Global Market Information, Inc. ("Global"). Upon consummation of the Merger, the name Global was changed to Track Data Corporation ("TDC" or the "Company").

Barry Hertz has served as the Company's Chairman and Chief Executive Officer since its inception. In April 1994 he was elected Secretary of the Company and served until August 1994. Mr. Hertz also founded Track in 1981. He was Track's sole owner and its Chief Executive Officer until its merger with Global. He holds a Masters degree in Computer Science from New York University (1973) and a B.S. degree in Mathematics from Brooklyn College (1971). Mr. Hertz is also Chairman of Innodata Corporation ("Innodata"), a public company co-founded by Mr. Hertz, of which TDC is a principal stockholder, and which is a global outsourcing provider of Internet and on-line digital content services.

Martin Kaye has been Executive Vice President, Chief Financial Officer and Director of the Company since April 1994. He was elected Secretary of the Company in August 1994. Mr. Kaye is a certified public accountant and has served as Chief Financial Officer of Innodata since October 1993 and was appointed as a Director in March 1995. He had been an audit partner with Deloitte & Touche LLP for more than five years until his resignation in 1993. Mr. Kaye holds a B.B.A. in accounting from Baruch College (1970).

Jay Gelman has been Senior Vice President - Sales since March 2001 and prior thereto he was the Company's Vice President of Sales for its institutional market data business since January 2000. From August 1998 until December 1999, he served as President of the Company's Newswire division. In 1989, he co-founded Alliance Distributors, a leading distributor of products manufactured by Nintendo, Sony, RCA/GE, Electronic Arts, and many other consumer electronic

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companies. In December 1997, Take Two Interactive, a public company, bought Alliance Distributors. Prior thereto he was a salesman for the Company from 1987 through 1989. Mr. Gelman attended Northeastern University and Bernard Baruch College.

Stanley Stern has been Senior Vice President - Customer Relations since June 2000 and a Director of the Company since May 1999. He previously served as Director from April 1994 until his resignation in September 1997. He was chief operating officer of Track, and in predecessor positions, for more than five years. Since the Merger, he was Executive Vice President of TDC until his resignation in December 1996. From January 1998 through May 2000, Mr. Stern had been Chief Operating Officer of Integrated Medical Technologies, Inc., an Internet-based provider of medical services information. Mr. Stern holds a B.B.A. from Baruch College (1973). He is also a director of Innodata.

Dr. E. Bruce Fredrikson has been a Director of the Company since June 1994. He is currently a professor of finance at Syracuse University School of Management where he has taught since 1966 and has previously served as chairman of the finance department. Dr. Fredrikson has a B.A. in economics from Princeton University and a M.B.A. and a Ph.D. in finance from Columbia University. He is also an independent general partner of Fiduciary Capital Partners, L.P. and Fiduciary Capital Pension Partners, L.P. He is also a director of Innodata.

William Karsh has been a Director of the Company since January 2000. Mr. Karsh is a Senior Vice President in charge of business development and operations at Knight Securities, L.P., the Nasdaq/non-Nasdaq over-the-counter equity securities market-making subsidiary of Knight Trading Group, Inc. (Nasdaq: NITE). He is a member of the Advisory Board at Neovest; the Board of Directors at Internet Trading Technologies, Inc. and the Board of Advisors at TheFinancialCafe.com. He was Executive Vice President, Chief Operations and Administrative Officer at SunAmerica Financial Network Inc., a holding company within SunAmerica, Inc. (NYSE: AIG) from April 1998 through June 1999. From January 1991 through March 1998, he was Treasurer and Executive Vice President of National Discount Brokers Group, Inc. (NYSE: NDB). In January 1994, he also became Chief Executive Officer and President of NDB. He has a B.A. in Accounting from Queens (NY) College (1977). He is a certified public accountant, holds Series 7, 63, 41, 24, 27 licenses and is an arbitrator for the New York Stock Exchange (NYSE).

Isaac Schlesinger has been a Director of the Company since July 2000. Since 1975, Mr. Schlesinger has been a managing director and senior officer of Bishop, Rosen & Co., Inc., members of the New York and American Stock Exchanges, a retail and institutional brokerage firm. He also serves as C.R.O.P., S.R.O.P., M.P. and chief financial officer. Mr. Schlesinger received a BA in Comparative Literature from Brooklyn College (1977).

Jack Spiegelman has been a Director of the Company since April 1996. Mr. Spiegelman has been President of Track Securities Corp. since December 1983. From February 1996 to June 1997, he was a Senior Vice President of J. W. Genesis Securities, Corp. and prior thereto for more than five years was a Senior Vice President of Fahnstock & Company, Inc. Mr. Spiegelman holds a B.A. in economics from Brooklyn College (1963).

In connection with a stock purchase agreement with Knight Trading Group, Inc. ("Knight") in December 2000, Knight has the right to designate one member of the Board of Directors for three years. Mr. Karsh has been designated by Knight. Directors are elected to serve until the next annual meeting of stockholders and until their successors are elected and qualified. Officers serve at the discretion of the Board. There are no family relationships among directors or officers.

Compliance With Section 16(a) of the Securities Exchange Act of 1934

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The Company believes that during the period from January 1, 2000 through December 31, 2000 all Section 16(a) filing requirements applicable to its officers, directors and greater than ten-percent beneficial owners were complied with.

Item 11. Executive Compensation

The following table sets forth information with respect to compensation paid by the Company for services to it during the three fiscal years ended December 31, 2000 to the Company's Chief Executive Officer and to the executive officers whose aggregate cash and cash equivalent compensation exceeded \$100,000.

Summary Compensation Table

| Name and Position | Fiscal Year | Annual Salary | Bonus | Total | Number of Stock Options Awarded |
|--|-------------|---------------|-------|-----------|---------------------------------|
| Barry Hertz Chairman, CEO | 2000 | \$375,000 | - | \$375,000 | 350,000 |
| | 1999 | \$375,000 | - | \$375,000 | 200,000 |
| | 1998 | \$375,000 | - | \$375,000 | 160,000 |
| Jay Gelman Senior Vice President - Sales | 2000 | \$250,000 | - | \$250,000 | 280,000 |

The above table does not include certain insurance and other personal benefits, the total value of which does not exceed the lesser of \$50,000 or 10% of such person's cash compensation.

Option Grants In Last Fiscal Year
Individual Grants

| Name | Number of Options Granted | Percent of Total Options Granted to Employees in Fiscal Year | Exercise Price | Expiration Date | Potential Realized Value at Assumed Annual Rates of Stock Appreciation for Option Term | |
|-------------|---------------------------|--|----------------|-----------------|--|-----------|
| | | | | | 5% | 10% |
| Barry Hertz | 50,000 (A) | 2.5% | \$6.75 | 3/13/05 | \$ 93,000 | \$206,000 |
| | 300,000 (A) | 15.2% | 1.50 | 5/31/05 | 123,000 | 276,000 |

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| | | | | | | | |
|------------|---------|-----|-------|--------|---------|-----------|-----------|
| Jay Gelman | 30,000 | (A) | 1.5% | \$6.75 | 3/13/05 | \$ 55,800 | \$123,600 |
| | 50,000 | (A) | 2.5% | 1.50 | 5/31/05 | 20,500 | 46,000 |
| | 200,000 | (B) | 10.1% | 1.50 | 7/31/05 | 82,000 | 184,000 |